# Sources of Venture Capital in Canada

# SOURCES OF VENTURE CAPITAL IN CANADA

## REVISED EDITION



Prepared for

The Department of Industry, Trade and Commerce
Government of Canada

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# PREFACE

An entrepreneur in search of financing for a new venture will seldom regard the traditional venture capital company as a principal source of funds. Normally, the capital available from personal savings, conventional lenders and, perhaps government agencies receives first consideration in the search process. However, these sources may prove to be inadequate and consequently the entrepreneur may eventually be found knocking on the venture capitalist's door.

The world of the venture capitalist can be a confusing place and to those who are unfamiliar with it, the environment can be intimidating. Under these circumstances, it is unlikely that an entrepreneur who is a newcomer to the venture field will be able to negotiate the best possible financial arrangement without proper preparation and advice. Venture capital deals are settled through a bargaining process in which it seldom pays to negotiate from a position of weakness or unfamiliarity.

One purpose of this book is to offer advice as to the best way to approach a potential backer. By outlining the policies and practices of venture capitalists, the seeker of venture funds will know what to expect when the bargaining game begins and the chances of a successful outcome will be improved.

This second edition of Sources of Venture Capital in Canada also identifies and briefly describes the preferred investment ranges of a number of venture capitalists. The venture capital market is a dynamic one and several new private and public suppliers have appeared since the first edition was published in 1973. A number of the provinces have established their own development corporations and are now financing many types of ventures through equity and near-equity holdings. In 1975, the Industrial Development Bank was replaced by the Federal Business Development Bank (FBDB)—a new agency with a new mandate. The FBDB is expanding its small business lending activity and has become increasingly interested in equity funding.

Although this revised edition offers useful advice on how and where to look for venture funds, searching for venture financing remains a complicated and often difficult task. Over the short run, it is important to help entrepreneurs cope with these complexities. However, the development of a more efficient venture financing system is a far more attractive alternative and one to which the federal government is firmly committed. Toward this end, some progress has already been made but, clearly, much remains to be done. The government puts a high priority on finding ways to improve the environment for small business financing.

Len Marchand — Jean Chrétien

August 11/77

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The information on Canadian sources of venture capital was collected during the summer and fall of 1976. It was obtained from the individual firms reported in the booklet, and has been verified by them.

In spite of the generous co-operation and assistance from these sources, errors and omissions have undoubtedly appeared in the text, and for these the authors accept full responsibility.

Peter McQuillan

Howard Taylor

# INTRODUCTION

TO FIRST EDITION

To the Canadian economy, characterized as it is by a relatively large number of high-risk investment opportunities, a high level of foreign investment and the need to sustain a high rate of economic growth to provide employment for a rapidly expanding labour force, the supply of venture capital is a particularly important subject. Yet it is a subject on which there is little systematic information. This booklet fills some of the gap by assisting entrepreneurs to identify and to negotiate with the suppliers of venture capital in Canada.

As in other primary capital markets, transactions occur in the venture capital market when there is a meeting of the minds between suppliers and users about the terms and conditions of contract. It is well known that it is often difficult to obtain a meeting of the minds on the complete set of terms and conditions which, for convenience, we can call the "price" of the capital. This difficulty is unfortunate—at best it raises the cost of financing, at worst no meeting of the minds is reached and an opportunity for profitable investment, employment and economic growth is lost.

Why is it difficult for the entrepreneur and venture capital investor to agree? At least three reasons are significant. First, there is often an antipathy to paying a competitive price for capital when the price is necessarily high.

Second, by the time the price is struck the market conditions may not be adequately competitive because there may be few suppliers of venture capital who are prepared to meet a specific investor's needs. Furthermore, the supplier of funds may be subject to insufficient competition when the time arrives to settle price. It takes time and money to check out proposals which a preliminary screening suggests have potential. The investor obviously does not accumulate his information to pass it on to his competitors. Thus, where the amount of information he accumulates is extensive, he places himself in something of a monopoly position vis-a-vis the entrepreneur. The entrepreneur can turn to other investors, but this will cost more time and money. He cannot be certain that he will get a better price. A bargaining situation exists with the cards stacked somewhat in favour of the supplier.

Third, entrepreneurs and investors are likely to perceive different levels of risk associated with the venture. If the investor sees greater risk inherent in the market for the company's products or concept than does the entrepreneur, he may worry more about management's capability of coping with them.

There is an obvious payoff to the entrepreneur for having his proposed undertaking well thought out and documented. It greatly simplifies the assessment of the proposal, thereby reducing the costs for investors to examine it. This improves the entrepreneur's bargaining position. But more important, the real risk of undertaking the project is lowered—the entrepreneur has a better grip on the management task.

Hopefully, by providing this insight into the policies and practices of a diverse group of venture capital investors, this booklet will help facilitate the process of coming to terms in venture capital transactions.

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1973

# Section 1
# VENTURE CAPITAL AND VENTURE CAPITALISTS

### 1.1 Equity Financing Is Expensive Financing

All financing involves a process of bargaining—one party may well get the better of the other party. The venture capitalist is a hard-nosed professional investor who is not encumbered by the emotional commitment of the founder. He is selective and, once having selected, he seeks the best deal he can drive. On the other hand, venture capital often brings with it advantages beyond the actual funds invested such as advice and experience in many aspects of corporate management—financial planning and control, accounting, personnel, marketing and underwriting. Through years of operation for and with the venture capitalist, the company may acquire a reputation and credibility that many similar private businesses could not acquire on their own. When the company has matured, the venture capitalist will then lend his full weight to a successful public offering.

It is important to recognize that common stock financing is an expensive form of financing. When the founders sell a minority or majority interest in their organization, *it is generally gone for all time*. Why give up an equity interest in the business if it is not necessary? The entrepreneur should exhaust first those other sources of funds which do not involve a loss of equity.

### 1.2 What Is Venture Capital?

The term venture capital means different things to different people. In this text, venture capital means equity investment in non-publicly traded companies. Within this definition, venture investments may be subdivided into major classifications.

Stage Zero—

Equity investment to develop a completely new and unproven idea, product, process or service to the prototype stage or to a point where the market is defined.

At this stage the originator of the concept, design or service is testing reactions from others.

Usually no business is being conducted, no organization has been created. Generally the sources of capital are limited to private funds and those provided by personal backers.

Start-Up—

Equity investments in a new enterprise selling a promising product or new service in a well-researched market.

At this stage the product or service is ready for the market. A management team is being assembled, commitments are being obtained from potential customers and the company is about to swing into production.

Generally at this stage the external financing becomes necessary. At the same time additional risks make it difficult for the entrepreneur to raise capital.

In order to assist the entrepreneur in recognizing these risks and to minimize them through thorough planning, the start-up stage is discussed at length in Section 4.

(These first two types of stages of financing are the classical definition of venture capital.)

Development—

Equity investments in a company that is already operational, with staff, plant, equipment and customers. It is a company that is finally about to realize or has just begun to realize its profit potential and needs money to carry on until significant profits begin to flow.

This stage is characterized by a period of modifications and adjustments in product, marketing and distribution, pricing, quality, etc. The end of the stage has generally been reached when the company is able to break even on a regular monthly basis.

Expansion—

Equity investment in a well-established, profitable company. The company is frequently one that could benefit from substantial expansion but lacks the necessary equity funds.

Typically, at this stage untried products and services are added to the original one which has proved to be successful, or the company is moving into new markets.

Turn Around—

Equity investment in a company experiencing difficulties, but which can be re-established on a profitable basis by the injection of new capital and other internal changes.

Buy-Out—

Equity investment in an established profitable company whose owners seek to reduce their present holdings or to sell out completely to a new group (arises frequently because of income tax and succession duty problems).

It is important to recognize that not all venture capital concerns would regard all six of the preceding types of equity investments as being within the scope of their definition of venture capital. Most venture capitalists prefer to invest in companies at the development or expansion stage because the future of the companies is more predictable. Some venture capitalists, however, will finance stage zero, start-ups, turn-arounds and buy-outs. To assist the user, we have, in the specific profile of each venture capital organization (Section 6): attempted to set out each group's scope of equity investment.

### 1.3 What Kind of Investment Opportunity Is Attractive?

The venture capitalist's services are intended to complement the activities of the chartered banks, investment dealers, term lenders and other well-recognized financial institutions. As the funds provided are generally not secured by a pledge of any assets, they are therefore at risk along with those of the owner/managers with whom they join.

The venture capitalist will, as might be expected, be impressed by people who approach him with plans that are fully developed. The presentation should include information detailing market, competition, plans for entering the market, accurate costs of production or purchases, and the relevant cash flow data. The company must also make available copies of financial statements for a number of years as well as projections for

future years, brochures and advertising material showing principal products or services, and a plan indicating how the capital is to be used. In short, the company must present the kind of business plan discussed in Section 3. Since this information will be requested by any investor, preparation of the material should not be considered a wast of time, even if the first application is not successful.

Let us now examine those particular facets of a potential investment in which a venture capitalist is interested.

Growth Prospects—

Few hard and fast rules can be set down for investment criteria. The degree of technology or nature of the product or service involved is not of primary importance. In a sense, the venture capitalist is looking for what any investor should seek: the potential for significant growth in earnings backed by sound management.

In the case of a minority investment in a small company that has a history, the venture capitalist would ordinarily require that the value of the investment double in less than four years. Because such companies are normally valued on an earnings basis, that is tantamount to saying that after-tax earnings must double in that period.

In the case of start-up, early development or rescue situations, the venture capitalist would frequently require the investment value to rise tenfold in the same four-year period. The difference in growth demanded is directly related to the higher degree of risk.

For bridge financing, that is, financing under one year and often under six months, the venture capitalist may be more concerned with the security. Because of the shorter term, the venture capitalist may receive a lower return, frequently a combination of interest and a right to buy common shares, exercisable at any time during the next five to 10 years.

Management—

The chief ingredient that the venture capitalist must evaluate is the entrepreneur himself. The elements of a meritorious business undertaking are competent principals, careful planning and diligent implementation. A particular person may have performed well in a certain environment, under a certain set of conditions, at a particular time with the co-operation of a team. When transplanted, he may do poorly. A person may be a good promoter and a good starter but when there is a need for more organizational ability he may fail. The quality of the entrepreneur himself, the prospective chief executive of the new company, is the crucial element.

Voting Control—

Day-to-day management of the company is left to those in charge. Typically, a venture capitalist leaves the original shareholder or entrepreneur with a sizable equity position in return for his inventions, ideas, capital invested, business developed and continued management. While practices do differ, most venture capitalists follow a policy of buying a minority equity position in a company. Exceptions are a start-up or a rescue situation, in which case the venture capitalist may want control, at least at the outset.

If the company has no record and the venture capitalist demands voting control, frequently the solution to the control question comes through the "performance settlement". Under such an agreement, the entrepreneur's share of the stock depends on his own performance. The better he does, the more of the company he owns in the end.

Unlike most public investors, a venture capitalist's role does not stop with the investment. Typically, a continuing role of counselling develops in the case of minority equity positions and an active role in management in the case of majority equity positions. Other than in crises, venture capitalists are sensitive about accusations that they try to run or otherwise interfere with companies in which they invest.

How Much for How Long—

The venture capitalist will usually invest from \$25,000 to \$500,000. Venture capital is long-term by definition and venture capital companies do not normally expect to realize their investments quickly. Such an investment policy requires the venture capitalist to have the majority of his assets invested in securities which are not readily marketable.

The venture capitalist usually makes the acquisition by the cash subscription for new common shares rather than by purchase from existing shareholders. Invariably, the owner/manager puts a higher value on the business than does the outside investor.

In cases where the company has earnings, the share price paid by the venture capitalist will likely reflect a multiple of earnings. If the future looks particularly attractive, the multiple could be increased. There are a number of other factors reflected in the price per share, including anticipated growth rate, conceived risks, future liquidity, pricing of similar companies that are public and the competitive activities of other venture capital groups.

It is the hope of the venture capitalist that, within five to 10 years from the date of making the venture investment, the affairs of the company will have so progressed that it will be possible to realize on a part or all of the heretofore illiquid and unmarketable investment.

Restrictive Convenants—

Strong controls will ordinarily be sought to safeguard the venture capitalist's minority position. These controls might include right of approval of large capital expenditures, of senior management salaries, of long-term lease commitments, of loans over and above normal bank financing, and of any decisions which would have an effect on the overall financial structure of the company. In addition, the venture capitalist may require one or more seats on the board of directors.

Getting Out—

The eventual size, nature and success of an enterprise should ultimately allow its securities to be marketable so that the venture capitalist may in time realize on his investment in order to re-invest such funds in other enterprises of promise.

The venture capitalist may realize on his investment in a number of ways:

i) Frequently he will assist and encourage the company to offer its shares to the public. The shares offered to the public might include a part or all of the shares owned by the venture capitalist. To the extent that the venture capitalist does not sell all of his shares in the first public underwriting, the

public offering itself does not necessarily assure future liquidity. In fact, in the absence of a strong stock market, many new public companies will take several years to develop the breadth of ownership and investor interest required to support sales by the venture company in any significant quantities.

ii) Alternatively, the private company may be sold for cash or for shares of a public company.

iii) It will frequently be necessary for the company in which the venture capitalist has invested to first make acquisitions and/or to diversify before a public offering or a merger with a public company can be seriously considered.

iv) On occasion, the founders or the incumbent management may seek to buy out the venture capitalist after his role as financial catalyst has been successfully fulfilled.

v) In those jurisdictions where it is legal, the company itself may, over the years, accumulate the working capital resources to buy back its common shares from the venture capitalist.

In Summary—The Venture Capitalist's Ideal—

Despite the best efforts of entrepreneurs and venture capitalists, a high percentage of emerging companies either get into serious difficulties or fail altogether. The venture capitalist will take every precaution before committing his funds. The following is a summary of a venture capitalist's view of the ideal investment opportunity.

The president should be articulate, enthusiastic, people-sensitive, realistic, and should combine marketing skills with an analytical cost-conscious approach to finance. The management team should have cohesion and balance and should be dedicated, thorough planners combining managements skills with strong technical expertise. The product should be well researched with an identifiable market. The project should involve a reasonable amount of first financing, with equity shares realistically valued.

## 1.4 How to Select and Approach a Venture Capitalist

The raising of money to finance a product or an idea is one of the recurring roles of management. The manner in which management goes about the financing will tell a great deal about its initiative, perseverance and ability. The venture capitalist will be studying carefully its ability to muster human resources to cope with the financing challenge. This will provide the venture capitalist with his first opportunity to study management under stress, and to measure the realism, accuracy, sense of responsibility and the overall business acumen of the management team.

Assemble a Management Team—

No one expects the founder to be a personal giant in research, production, marketing, finance, personnel administration and organization. When he has identified his own weaknesses, he must set about recruiting a management team that compensates for his deficiencies by complementing his personal ability. Too frequently the founding management group consists of members of the same profession or discipline.

If it becomes difficult to recruit a management team to an under-financed company, it is often practical to get from desirable potential employees an informal commitment, contingent on successful financing.

Document the Proposal—

Experienced investors should not be expected to commit funds to an interesting dream. Dreams must be translated into a thorough business plan. In developing the business plan, the entrepreneur displays personal conviction, commitment and planning ability. The plan creates an infrastructure of fact. Above all, the plan should be realistic and must point out and deal squarely with potential problems and uncertainties.

If external consultants (e.g. lawyers, accountants, management consultants) are necessary to put together a complete business plan, management should

i) determine the professional's competence and experience by asking to see actual business plans developed for other clients;

ii) ask the professional to indicate that he has no other professional commitment which will interfere with the prompt development of the plan;

iii) select an in-house co-ordinator who has the time and enthusiasm to assemble the plan with dispatch;

iv) reduce future costs by training employees in planning and financial presentations by having them work closely with the external consultants.

The federal and provincial governments have many services available to new and established businesses, frequently at no charge or at a nominal charge. As part of the planning process, management should contact the federal and provincial departments of industry, trade and commerce to discuss its business plans. The federal or provincial printing bureaux, who stock a wealth of printed material (especially statistical material), may also be useful sources of information in the development of the business plan.

Management should leave no stone unturned. There are many members of university faculties (business, engineering, economics) who would be willing and enthusiastic to assist a young company. Their assistance is informed, unbiased and frequently inexpensive.

Avoid Early Failures—

Timing is always important in financing. On occasion, the founders will have attempted to complete financing themselves. Having exhausted their own funds, they will desperately seek fresh capital. By the time they turn to the venture capitalist for assistance, working capital has been depleted and the company is insolvent. While failure should not absolutely damn the venture, the prospective venture capitalist may be disappointed by management's demonstrated seat-of-the-pants approach and its absolute reluctance to plan. Management must not wait until the last moment to finance but should, through a proper business plan, identify the amount of money required and the time when it will be needed.

Be Prepared to Give Up Some Equity—

The founders should compare the amount of money now required to the amount previously invested and come to a realistic conclusion as to how much of the company they are prepared to give up for the needed capital. They must be realistic. They should consider the need to give up equity before even seeing the venture capitalist. They should then confirm their conclusions with their professional advisers prior to visiting the venture capitalist. Obviously, if they have not timed

their needs and are desperate for funds, they will have to give up a great deal.

Making the Selection—

Selecting a venture capitalist should be done carefully. The profiles of the Canadian venture capitalists set out in Section 6 should be a useful starting point. It is generally recommended that only one prospective investor be approached at a time. Begin the selection with a venture capitalist who has expressed interest in the

i) industry;

ii) geographic location;

iii) size of deal.

It may be desirable for the company to consult with its banker, lawyer and accountant for recommendations or to confirm its own selection.

Early in the discussion with the selected prospective investor, the founding shareholder should determine that the venture capitalist actually has uncommitted funds available.

Before Commitment—

Before committing himself, the founder should ask to talk with several entrepreneurs in whom the venture capitalist currently has an investment to determine their satisfaction with the venture capitalist. The founder should review carefully all of the restrictions and obligations the venture capitalist seeks to place on the company. Independent legal and accounting advice may be desirable. Where practical, founders should avoid association with finders who will take an inordinately large fee for finding capital. Venture capitalists frequently resent these payments unless the finder has also made an important contribution to the overall business plan.

### 1.5 Negotiating the Terms of the Financing

The goal, of course, is to achieve a mutually satisfactory arrangement. The founders are selling an interest in the future profitability of their concept and are obtaining a business partner. The amount and terms of the financing sought should be realistic and reasonable. They should not be inflexible in their demands but should not give anything away. Some of the matters that will have to be negotiated are:

Amount of Financing—

The business plan will indicate the financing required, assuming the projected results are achieved. However, the venture capitalist's judgment with respect to future financial results and accordingly the financing required may well differ from management's.

Timing of the Investment—

The venture capitalist may wish to make his investment over a period of time as funds are required. The founders should ensure the terms of such phased investment are determined in advance and there is a binding commitment on the part of the venture capitalist.

Form of Investment—

There are four financing instruments available either alone or in combination. Their use will be determined primarily by the financial position of the venture, the degree of risk associated with the investment and the return on investment desired by the venture capital firm. As it is the venture capitalist's objective to ultimately realize on his investment, he will ordinarily invest in those instruments which provide the greatest flexibility from a financial and taxation viewpoint to participate in equity and to withdraw investment.

The investment philosophy, objectives, mode of operation and type of financing assistance given by most of the Canadian venture capital organizations may be summarized as follows. The venture capitalist will invest in the common stock of private companies and in securities convertible into common stocks of private or closely-held public companies which offer exceptional opportunities for capital appreciation. Furthermore, it is the venture capitalist's policy, on occasion, to provide a company with additional funds by way of loans (or debt secured only by a floating charge on assets), by subscribing for preferred shares and, where practical, by guaranteeing obligations of the company in return for an equity position or for a call on an equity position in the company.

In venture capital situations, debt can be used to finance time gaps in the working capital cycle for ventures that cannot attract bank debt. This debt is junior to the bank and generally to other institutional lenders. As a reward for his debt financing, the venture capitalist will ordinarily insist that it be accompanied by warrants or be convertible into common stock. To the extent that he takes convertible debt, he is forced to make his decision to convert when the debt matures. With warrants the venture capitalist can defer his investment decision until after the debt is repaid.

In venture capital financings, preferred shares are used almost exclusively with a conversion feature. Preferred shares (unlike debt financing) offer the company the advantage of additional shareholders' equity. The preferred shares also enjoy a preference in liquidation by ranking ahead of the common shares upon windup.

Common stock is the most junior of all securities and has no preference in liquidation. Of course, profits accrue to the benefit of the common shareholders.

A stock purchase warrant is an option to purchase common stock during a specified period of time at a predetermined price.

Percentage of Ownership—

Venture capitalists normally buy a minority interest. The ownership percentage will depend upon such factors as the stage of the venture at the time of the financing, the amount of the owner's own equity in the venture and the degree of risk and return offered.

If the venture capitalist insists on a controlling interest initially, the founders should try to strike a formula to earn back control. Frequently, the founders will be given an option to buy back control if the company achieves the budgeted growth in sales and profits. "Earn-backs" should be struck at the time of venture financing, not later: otherwise the buy-back price may be inordinately high.

If the founders can avoid giving up too much equity at the outset, they will be protecting their long-term equity percentage for future developments necessitating more financing which undoubtedly would mean a further reduction in their ownership interest.

Restrictive Covenants—

Normally, the venture capital firm will require that its approval be obtained for such things as capital expenditures, borrowing, remuneration of senior management, dividend payment and the sale of assets. The extent of management freedom to make decisions on

such matters before the venture capitalist's approval is required should be determined in advance.

Management Responsibilities and Remuneration—

Most venture capital firms do not wish to become involved in the day-to-day operations of the companies in which they invest. They keep in touch through their membership on the board of directors. In addition, they will usually want the right to replace management and to obtain necessary management expertise if and when required. Not every person who creates a successful business is able to continue to run that business well as it reaches a size requiring the president to have a considerable degree of managerial ability.

The venture capitalist wants a high degree of financial commitment on the part of the individual seeking financing. Accordingly, he will not look favourably upon demands for a high salary and for the other perquisites common in large or family-owned companies. On the other hand, he will be prepared to reward achievement. Accordingly, it may be possible to obtain a bonus arrangement based, for instance, on a percentage of profits after allowing for a reasonable return on investment.

Cost of Services Provided by the Venture Capital Firm—

Some venture capital firms charge for the consulting services they provide with respect to their investments. The nature of the services which can and will be provided and the basis of the charge for such services should be spelled out.

## 1.6 Why Companies Are Turned Down by Venture Capitalists

There are a number of reasons why companies are turned down by venture capitalists:

1. There is not enough owners' equity in the business. The venture capitalist feels that the founders are withholding personal financial resources and views this as an expression of a lack of confidence and commitment.
2. Management is inadequate. The entrepreneur must appreciate that it takes many skills to operate a successful business. He will not attract venture capital if he is unwilling to introduce necessary depth and balance.
3. The founders are not prepared to give the venture capitalist what he regards as a reasonable percentage of the company in return for his investment.
4. The founders approach the venture capitalist with an incomplete business plan. By the time the plan is fully developed, so much time has elapsed that the concept has lost the enthusiasm and imagination of the venture capitalist.
5. The founders approach the venture capitalist with a slick business plan which, upon close and expensive investigation, proves to be so unrealistic that management loses confidence.
6. Although the product or service is interesting, the founders fail to demonstrate that there is a market and that the goods or services can be produced to serve the market under economic circumstances.
7. The goods or services, even if successfully exploited, offer an inadequate return on investment in the light of the risk being assumed by equity investors.
8. The business concept itself is premature. Product timing is critical. Tastes and social mores may not have changed quickly enough.

## 1.7 How the Venture Capitalist Monitors His Investments

Once the venture capitalist has put his financial eggs into the entrepreneur's basket, he will want to keep an eye on the basket. He is now a partner—sophisticated and demanding. By monitoring, he seeks to

i) avoid unpleasant surprises:
ii) provide an informed sounding board for a lonely president;
iii) provide ongoing financing counsel:
iv) judge the proper time to withdraw part of his original investment.

Monitoring an investment requires an expensive commitment of a senior member of the venture capital team: high costs explain, in part, the venture capitalist's demand for a high rate of return on invested dollars. The monitoring frequently involves:

1. One or more seats on the board of directors and perhaps even a place on the executive committee;
2. Monthly reports including standard financial statements as well as general reports covering marketing production and research and development:
3. Copies of all budgets, financial forecasts, revised budgets, etc.:
4. In addition the venture capitalist will attempt to identify the critical or unique variables which may serve as an early warning system on the business. The variables that will be studied include:
   i) the overall growth rate.
   ii) cash management.
   iii) working capital.
   iv) relationship with important customers.
   v) order backlog.
   vi) personnel turnover.

In reporting to the venture capitalist, the founders must be prompt, complete, accurate, realistic and honest. Founders should not spend time and energy masking or sweeping under the carpet unavoidable problems. The venture capitalist is ordinarily a sympathetic businessman experienced in dealing with many types of problems. His assistance should be enlisted at the first indication of a problem.

# Section 2

# CASES IN CANADIAN VENTURE CAPITAL

## 2.1 Channel Seventy Nine Limited

Between 1970 and 1972, Phyllis Switzer, Moses Znaimer, and others, translated a dream into reality as CITY-TV in Toronto. Four years later the company is showing profits and is an outstanding example of a venture capital investment in a high-risk industry.

Mrs. Switzer recognized the need for local programming which was then being encouraged by the Canadian Radio and Television Commission (CRTC). Toronto appeared ripe for specialized, local, over-the-air programming.

In 1971 the group proposed to the CRTC the first Canadian commercial UHF station. The primary audience would be cable subscribers with over-the-air viewers as a bonus. A single studio and black and white transmission would minimize costs. Initial capital expenditure of the company was projected at $855,000 and the losses until break-even in the third month of the fourth year were estimated at $1,692,000, for a total capital requirement of $2,547,000. This was to be financed by investors, bank loans and accounts payable.

Investors were offered 30 units each consisting of five preference shares at $10,000 per share and 233 common shares at $2.00 per share for a price of $50,466 per unit. The four founders would purchase 3,000 common shares for one cent each.

A business plan was prepared in the form of a prospectus describing the people and equipment, and giving detailed projected profit and loss statements and cash flows for the first six years.

It was largely because of the detailed planning and the thoroughness of this prospectus that initial investors were attracted to the project. By the summer of 1971 the financing was placed among 25 investors representing more than 50 per cent of those approached. The investors included individuals, venture capital companies, a mining group and land developers. The CRTC heard the application in September, and the licence was granted on November 25, 1971.

Then the problems began. Based on advertiser requirements it was decided to commence operations in colour. Therefore, the financial projections had to be revised and the offering increased to 40 units to provide the additional funds. A chartered bank had indicated a willingness to advance $800,000, but after frantic negotiations the bank would only provide a $400,000 term loan and an agreement to discuss the remaining $400,000 after six months of operations when losses would be high and cash flow tight. Under pressure the company approached another bank which approved a $600,000 line of credit to be secured by receivables.

Working with limited funds, CITY-TV had to be innovative to produce 41 hours of local programs a week. To fill out the schedule it relied on purchased items such as re-runs of popular United States shows, B.B.C. serials, specials and old movies in series.

Broadcasting began in September 1972, ten months after the issue of the licence. Costs were 55 per cent higher than originally forecasted. Before the station went on the air, $1,570,000 of the $2,019,000 invested had been spent. Revenue for the first year of operation ending August 31, 1973 was $1,432,000, 133 per cent above the forecast, and advertiser interest was increasing rapidly. However, higher than expected costs resulted in a loss of $1,187,000—well above the $803,000 originally projected.

Fiscal 1974 followed a similar pattern; sales were an encouraging 170 per cent over forecast, while the loss of $938,000 was only 53 per cent over forecast. More funds were required, and in December 1973, each common share was split into 100 new common shares and 167,359 new common shares were purchased by existing shareholders for $1.50 each. Later in the year, CITY-TV decided to move its transmitter to the CN Tower in 1976. The move would double the number of homes reached, but required additional financing. In September 1974 an additional 250,000 common shares were sold to existing shareholders at $1.50 each and 125,000 common shares were sold to a major pension fund at $2.00 each, thereby raising $625,000.

In fiscal 1975 (year three) the bank increased the term loan to $1,500,000 as it and the investors could see clearly the progress of the organization. Sales were 138 per cent above the initial forecast and the loss of $289,000, including depreciation of $210,000, was 40 per cent over forecast. Thus break-even, on a cash basis, was almost at hand and no further financing was needed.

By June 1976 CITY-TV had been solidly in the black for eight months. Advertising revenue was still increasing and fiscal 1977 looked good with first run United States network shows on the fall broadcasting schedule for the first time.

How had investors done? In December 1971 an original subscriber purchased one unit consisting of five $10,000 preference shares and 233 common for a total cost of $50,466. Assuming he exercised all rights in December 1973 and November 1974, he now owns five preference shares with a book value of $50,000 plus 31,600 common shares worth $85,636, for a total value of $135,636. This investment of $62,816 has resulted in a paper profit of 116 per cent in five years, during which time he has received no cash return on his money. If an original investor sold out at the recent offer, his annual rate of return before tax would be about 16 per cent.

Some important lessons may be learned from this experience:

1. The business plan is one of the most important elements in the presentation to the venture capitalist and a focal point for organizing the whole management effort. It is through the business plan that the entrepreneur must "sell" the venture capitalist on his idea. A good business plan will show the venture capitalist that the entrepreneur knows what he is doing and where he is going.
2. Initial investment should be sought from those who could provide additional financing as the business develops.

3. Many different sources of venture capital may be used by the business. In this case, banks and venture capital companies played prominent roles.

## 2.2 Lumonics Research Limited

In 1969 the federal government announced the development of the transversely excited atmospheric (TEA) laser. Applications for licences were invited from Canadian companies. One of the successful applicants was Lumonics Research Limited of Ottawa.

Lumonics obtained a licence because it had developed a strong team of individuals possessing technical, business, and management skills. Allan Buchanan, Gordon Mauchel and Allan Crawford each had substantial experience in manufacturing and selling high technology products. Obtaining the licence was also contingent upon raising sufficient capital to finance the initial year of operations. Three hundred thousand units were sold to private investors, each consisting of a $1.00 par value preferred share and a common share for one cent each, for a cost of $1.01 a unit. The founders purchased 327,860 common shares and other investors purchased 15,000 common shares at one cent per share.

Operations started in January 1971 and progressed rapidly. By September 1971 the company had developed a high energy laser product line and initiated sales activity by demonstrating a working model at a large trade show in New York City. The substantial U.S. research market was the opportunity initially identified, and the reaction was positive. Immediate sales resulted and manufacturing commenced. Sales were $35,000 in 1971.

From the outset the company was heavily involved in research and development, thereby qualifying for many federal government assistance grants under such programs as IRAP, IRDIA, PAIT, and DIR. It also received an Ontario Development Corporation term loan at eight per cent.

In 1972, Lumonics added Robert Atkinson to its management team. Through his financial experience Lumonics developed short-term budgets and a long-term business plan. In 1972 sales were $341,000.

During the third year of operation a requirement for additional working capital prompted the issue of a 25 per cent interest in the company's common shares to an established Canadian company at the issue price of $2.10 per share. At the same time existing shareholders were given the opportunity to exercise their pre-emptive rights to purchase shares at the same price.

By the end of 1973 the company's sales were more than double those of the previous year and it was earning a profit.

Lumonics then embarked on a diversification program, investing in two different start-up enterprises in the U.S. each involved in a high technology product which was still under development. Neither of the investments developed in accordance with the company's plan, and financial support was withdrawn. The Company's management talent was re-directed solely to the development of new applications in the laser market.

By the end of 1974 Lumonics increased its sales volume by approximately 20 per cent over the previous year.

Faced with a growing market, the need for more efficient and expanded plant facilities became apparent, and application was made to the Ontario government for financial assistance to construct and equip a suitable building. The Ontario government provided long-term financing for the new facility in the form of two loans. One covered approximately 50 per cent of the building cost, repayable over 20 years with interest at eight per cent per annum; the second covered approximately one-third of the building cost, forgiveable over a six-year period providing the company achieved certain employment objectives.

In 1975, Lumonics developed working models of lasers for marking alpha and numeric characters on manufactured goods. The product, Laser Mark, is a breakthrough in the "marking" industry and in the use of lasers commercially. The company's sales increased 20 per cent over the previous year to about $1,500,000 and its financial outlook was excellent.

Several lessons can be learned from Lumonics' experience:

1. High-technology companies can be developed in Canada. The entrepreneurs, ideas and funds are here.
2. A strong management team is essential. For Lumonics, it was a key ingredient in attracting outside investors and obtaining the necessary licence.
3. There are many potential sources of financing available to the entrepreneur. In this case, private funds, venture capitalists, and a variety of government assistance programs were used.
4. Diversification programs should not be undertaken too early by an entreprise while its major effort is the development of its prime product lines.
5. Establishing and implementing business and financial plans early in the development of a company is vital in controlling the operation as well as assisting in raising outside investments.

# Section 3

# THE BUSINESS PLAN

### 3.1 The Business Plan—What Is It?

The business plan is a written summary of the overall activities of the business enterprise. It is a report on the company's sources and uses of funds, its management personnel and labour relations, its products and marketing strategy, its production techniques and research program. It describes the past, present and future of the enterprise. When it is properly prepared, the business plan becomes a blueprint for financing. It should be complete, organized and factual.

The business plan forces management to plan and to balance plans. If management promises a 100 per cent per annum growth in sales, then the business plan must prove that working capital is available to support this level of activity; that the plan can, or can be expanded to, handle that volume; and that adequate labour will be available at that production level. The business plan forces management to commit wild forecasts to a plan that balances all inputs—capital, materials, labour and productive capacity.

### 3.2 Why Bother With a Business Plan?

The business plan will be one of the most important elements in the presentation to the venture capitalist and a focal point for organizing the whole management effort. It is absolutely indispensable. A well-prepared plan:

1. induces realism in the founders. When founders are forced to sit down and really study and quantify the whole cost—volume—profit relationship—they are frequently made aware of their own over-optimism;
2. exposes management (especially non-financial professionals) to the whole planning, budgeting, forecasting and reporting process—its method and its merits;
3. helps to set the break-even point in profitability and cash flow:
4. helps to identify the users, the market, the pricing strategy and the competitive conditions under which the company must operate to succeed;
5. provides the budget that will be a useful barometer for an early assessment by the venture capitalist of project feasibility and project attainment;
6. spurs prompt investigation of deviations or variations from plan before conditions become irreparable;
7. discloses the timing and amount of the sources and uses of funds, especially the timing of capital expenditures and the need for short-term bank borrowings;
8. provides a measurement of anticipated return on investment;
9. identifies the number of employees needed, the timing of their need and the balance of skills;
10. is testament to the ability of the management to plan;
11. reduces the time that it takes a prospective investor to assess and accept or reject the proposal;
12. helps establish optimal size and location of plant and facilities;
13. helps to identify the factors critical to the success of the concept.

Above all, the business plan is a tangible submission blueprinting management's dream. The venture capitalist will either take the dream apart or he will be convinced of its obvious merits when he reviews the blueprint.

### 3.3 The Business Plan—Its General Outline

The Mini-Proposal—

It is recommended that the plan be introduced by a one to three-page summary of the idea, the market need, the amount of capital required and the projected financial results expressed as a rate of return.

Table of Contents—

The contents should be comprehensive and well indexed for complete and easy reference.

Physical Condition—

The plan should be typed and set out in such a way that it invites examination (e.g. double-spaced and well paragraphed). Frequently the most inviting reports are those which introduce each new idea with a question, the answer to which follows in the body of the text.

The business plan should be prepared in non-technical language wherever possible.

Playing the Devil's Advocate—

Every intelligent reader of the business plan will read it with scepticism. The contentious points should be anticipated with the business plan addressed to those points. The plan should discuss any special hazards or problems associated with the product. An experienced investor knows that every product and every company has some element of risk attached to it. There should be no attempt to gloss over the negative aspects of the product or the company.

### 3.4 The Business Plan Itself

3.4.1 Background—

A narrative description of the development of the business or the concept including the rationale for entering specific markets should introduce the plan.

3.4.2 Management—

The business plan must establish that management, capable of carrying out the business plan, is or will be available. The plan should include:

1. Personal resumes of the executives and senior supervisory personnel detailing
   - age,
   - academic background,
   - positions held,
   - shareholdings,
   - functions,
   - principal accomplishments,
   - business references,
   - a description of current remuneration.

The plan should demonstrate that these people will be capable of growing with the company.

2. A discussion of back-up management and availability of replacements. Does the plan depend on one man for its complete success or failure? Discuss in detail how each individual could be replaced in a crisis.
3. A comment on the extent to which product, goodwill or technical know-how may come to rest in a limited number of people who are not substantial shareholders.
4. A discussion of the need for employment contracts.
5. A description of why members of the management group left their former employers.
6. A schematic organization chart that describes the responsibilities associated with each major management position.
7. A comment on the demands on senior management in year five of the plan to ensure that management will be able to cope at expanded activity levels.
8. Identify the timing and the need for new management.

3.4.3 Labour—

The plan must identify:

i) the skills required;
ii) the timing of the need for labour;
iii) compensation levels both now and in the predictable future;
iv) the availability of labour;
v) the anticipated productivity of the labour.

The plan must bespeak its realism by building in training and a learning curve and by showing its flexibility and responsiveness to unanticipated disruptions and demands.

The plan should comment on:

1. The company's compensation including fringe benefits, comparing it to other companies in the same geographical area and/or in the same industry;
2. The current or anticipated status of union contracts, union demands and objectives;
3. Labour relations in the company and in the industry. It should comment on the extent to which the company is exposed to further labour organization. It should name current and prospective unions;
4. The availability of skilled and unskilled manpower in the area to meet the most optimistic levels of demand;
5. Whether the company and the industry are becoming less labour intensive. Comment on labour turnover comparing the company's position to that of the industry.

3.4.4 Research and Development—

The business plan must demonstrate that the company has the technical capability to introduce and sustain products or processes. The plan must therefore:

1. indicate why the product or process is unique and worthy of financial support;
2. provide independent scientific support for the product or process (including laboratory reports and/or users' reports and endorsements);
3. indicate the anticipated costs of developing a working prototype (including timing);
4. set out anticipated research and development costs to advance prototype to production-line status (including timing);
5. comment on the state of the art among
   i) domestic competitors,
   ii) foreign competitors;
6. comment on ability to legally protect know-how and lead time over competitors (e.g. patents);
7. describe the scientific frontiers that are being advanced the most;
8. describe future pressures on research and development, commenting on probable product adaptations.

3.4.5 Marketing—

The marketing aspect of the business plan must convince the reader that the company has a product or process which is different and worthy of support. The marketing plan must identify:

i) the customers,
ii) size of the market,
iii) anticipated selling price,
iv) methods of distribution,
v) costs of reaching the market.

A well prepared plan should:

1. comment on the general condition of the economy and the industry. Comment on the degree to which the company's products or services are sensitive to short-term changes in the economy;
2. describe in detail the existing and proposed products or services including any patented or patentable features. Submit sales literature, photographs, drawings, etc;
3. describe the customer benefits and economic advantages over existing competitive products or services;
4. define the company's marketing philosophy;
5. outline with reasons, a detailed marketing plan including:
   i) analysis by product, by territory,
   ii) optimal distribution method, e.g. wholesaling, franchising, own sales force, agents, etc.,
   iii) price and credit structure, product line profit contribution,
   iv) break-even analysis by product and territory,
   v) market characteristics, market measurement,
   vi) identification and classification of principal customers,
   vii) product and packaging testing,
   viii) test marketing,
   ix) media selection for advertising,
   x) warranty policy;
6. indicate the present and potential size of the total market. What share do you hold or expect to hold?
7. provide an analysis of competitors, including an evaluation of their products, pricing, market share;
8. name potential customers who have been contacted. To what extent have they shown enthusiasm? Give actual names of people in company who may be contacted;
9. describe degree of exposure to changes in freight costs, strikes at carriers, customers and suppliers;

10. comment on the potential demand for the product or service in the export market. When and how should this demand be met?
11. estimate market start-up costs.

3.4.6 Manufacturing—

The manufacturing plan must identify:

i) the need for physical plant;
ii) optimal size and layout of plant;
iii) capacity of plant;
iv) alternative uses;
v) burden of fixed costs;
vi) availability of a trade-off of fixed costs for variable costs (e.g. by sub-contracting component production);
vii) the cost of the fixed assets required.

1. The plan must include a complete bill of materials describing and costing each input and naming at least two suppliers. It must also indicate whether it is from domestic or foreign supply.
2. Comment on price trends of major raw materials, compared to trends in selling prices of the finished products.
3. Determine degree of reliance on one or few suppliers, carriers, etc.
4. Comment on utilities, degree of dependence, availability usage and rate trends.
5. Comment briefly on anticipated availability of all major items of raw materials consumed in operations.
6. Comment in detail on how you arrived at the following factors of manufacturing standards:
   i) size,
   ii) weight,
   iii) durability,
   iv) convenience,
   v) packaging,
   vi) quality,
   vii) colour,
   viii) customer service,
   ix) product standardization and compatibility.
7. Comment on how plant location has been or will be determined. Include references to:
   i) customer proximity,
   ii) supplier proximity,
   iii) manpower availability,
   iv) transportation services,
   v) investor preferences.
8. Describe and diagram the production process. The costs of all facilities and equipment should be substantiated by invoices or third party quotations from prospective landlords, contractors, equipment suppliers, etc.
9. Comment on qualifications to do a plan layout. Discuss scope for physical expansion at same geographic location.
10. Comment on production planning and scheduling procedures, including an estimate of plant start-up costs.
11. Briefly describe existing plant and property. Comment on physical condition of plant and equipment including outstanding capital projects and probable costs of expansion. Give expansion time-table.
12. Provide a quarterly analysis of degree of unused capacity and where possible similar data for the industry and competitors.
13. Brief trend analysis of expenditures on maintenance and fixed asset additions (both owned and leased).

3.4.7 Other Information—

The other information that should be included in the business plan will be of a legal nature. It will include a description of authorized and issued shares, copies of relevant contracts and disclosure of all non-arm's length relationships. This information will be important to a prospective investor and his lawyer in determining that the company is legally capable of accomplishing its business purpose in the proposed way.

1. Give facts as to incorporation of company, date, province, the locations of executive officers.
2. Submit a photo-copy of the letters patent especially those sections dealing with the authorized capital structure (including rights, restrictions and preferences).
3. Include a complete listing of shareholders and number of shares owned.
4. Submit a chronological record of consideration received from prior sale of shares, number of buyers and identity of principal buyers.
5. Provide information on any predecessor companies, partnerships, trusts, if any, including financial statements, a copy of agreement of asset and know-how transfer, details of contingent liabilities.
6. Submit a copy of any:
   i) employment contracts;
   ii) pension plans including actuarial reports on extent of unfunded past service liabilities;
   iii) profit sharing plans;
   iv) options and warrants;
   v) patents, trademarks;
   vi) franchise and distributorship agreements.
7. Comment on whether there will be any non-arm's length relationships between the company and its landlord, customers, carriers, distributors, licensors, licensees and suppliers.
8. State whether the company's beneficial contracts are assignable. Consider licences, royalty agreements, employment contracts, leases, suppliers' contracts, collective bargaining agreements.
9. Comment on any past, present or threatened litigation or proposed changes of laws which could adversely affect business, e.g.:

   pollution legislation;

   minimum wage law;

   new government production standards;

   tariffs;

   exchange controls;

   price controls;

   advertising and promotion.
10. Describe those aspects of the company's business now subject to government control and regulations. Is there a likelihood of additional regulation?

11. A trade secret may frequently be a very valuable asset. In many cases, industrial know-how will be the most important asset contributed by the entrepreneur and founder. There are two principal considerations surrounding know-how which the founder must be prepared to discuss thoroughly with the venture capitalist:

    1. Does the industrial know-how legally belong to the founder?
    2. Assuming that it is legally the property of the founder, to what extent is it patentable?

    Services of a skilled lawyer will be required to clarify these points before the venture capitalist will make any commitment. Frequently, the venture capitalist will want his own legal counsel to consider these matters.

    Founders forget that at some time in previous employment, they may have signed agreements at their former employer's request that:

    i) they would not directly or indirectly own, operate, be employed in, or otherwise be connected in any manner with an enterprise competing with their former employer;

    ii) that they would not communicate with or contact any customers of their former employer;

    iii) that they agreed to assign and transfer to their former employer all inventions, discoveries or improvements made during their former employment.

    There may be circumstances in which the industrial know-how which the founder represents as his own was once owned by predecessor corporations, partnerships or proprietorships. Although the former owner and partners may have, in discouragement, abandoned their active interest in the product, process or service, they may still have a legal claim to participate. These long lost claimants frequently do not appear until the concept is an assured success. While some of these claims may be unenforceable, legal counsel is highly recommended if the founder is to reduce his vulnerability to legal action from past employers, former partners and fresh investors.

3.4.8 Financial—

The financial component of the business plan will summarize in a visual form, expressed in dollars, all of the other elements of the business plan, marketing, production and personnel. It will demonstrate whether management's dreams, when expressed in dollars, are in integrated attainable projection. A well prepared financial plan must identify:

i) the sources of funds...in terms of timing, amount, cost and repayment;

ii) the uses of funds...in terms of timing, amount and return.

So many companies underestimate their needs. When their shortfall is finally identified, the expenditures have reached the point of no return. If the company is desperate, the cost of funds will be outrageous. Great care should be taken not to underestimate the necessary amount of funds. Always overestimate the need for money.

The financial plan should therefore include:

1. Actual audited financial statements for at least the most recent five years should be submitted. These statements, both balance sheets and income, should then be transferred to a five-year comparative summary for ease of study by investors.

2. Interim financial statements should be submitted for each of the last 12 months and for each of the last five quarters to facilitate month-to-month monitoring of operating results by means of comparison with forecasts submitted.

3. Detailed cash flow and income projections should be provided on a monthly basis for the next 24 months and quarterly for the following three years. These estimates must be realistic. It is advisable to prepare three separate forecasts: the most pessimistic, the most optimistic and the most probable. All assumptions should be described and cross-referenced to a document that supports these assumptions. The cash flow analysis will indicate the timing and amounts of sources and uses and funds. Determine the precise capital needs and comment on the anticipated sources of these funds—timing, amount and cost.

4. Pro forma balance sheets should be prepared for each of the next five years.

5. All costs should be broken down into fixed and variable components. The break-even point (both accounting and cash flow) should be determined.

6. Wherever existing loans are outstanding, identify:

    lender;
    terms;
    security;
    restrictive covenants;
    lending officer;
    details of options, conversions;
    audited financial statements for as many years as possible.

7. Complete description of accounting principles and policies including;

    i) Recognition of inventory obsolescence, disposal of inventory variances, treatment of fixed and variable overhead, inventory cost flow assumptions, e.g. LIFO, FIFO, average cost.
    ii) Treatment of prepaid expenses and deferred charges, e.g. supplies, uniforms, large advertising campaigns.
    iii) Treatment of research and development expenses.
    iv) Recognition and amortization of intangibles such as goodwill, patents, licences, franchises and know-how.
    v) Fixed asset accounting policies, including capitalization policy, maintenance policy and depreciation policy (straight-line vs. declining balance vs. sinking-fund).
    vi) Treatment of leased assets.
    vii) Treatment of government assistance and government grants (reduction of current expense, deferred revenue, reduction of cost of fixed assets, contributed surplus).

viii) Basis of provision of liability for damaged goods, warranties, guarantees, servicing.

ix) Recognition of revenue on installment sales, deferred servicing. Clear statement of methods followed in recognizing revenue in general.

x) Treatment of other lump-sum non-recurring or abnormal outlays, e.g. lease termination, severance payments, special advertising, opening expenses, consulting studies.

xi) Impact of changes in accounting policies during period. Put all statements on a comparative basis. (Note: Also put statements of other companies being used in comparative study on same accounting basis, where practical.)

### 3.5 The Proof of the Pudding— *Is It in Your Business Plan?*

Before the plan is submitted to a prospective investor, several independent parties should review it to determine those matters which may have been glossed over, misrepresented or left unanswered.

The independent parties should confirm that the plan demonstrates:

1. complete managerial ability;
2. realistic market identification and marketing strategy;
3. sufficient funds for long-term activity;
4. balanced productive capacity;
5. a technically feasible commercial product.

There are few smooth-talking promoters and entrepreneurs who can make up for an inadequate business plan. If the plan is not well prepared, the company does not deserve financing!

### 3.6 Helpful Tips for Attracting Venture Financing— a Summary

Someone once defined a "big shot" as a little shot who kept shooting. Keep shooting. Financing for most people is a time-consuming, expensive, frustrating and demoralizing experience. The entrepreneur must:

1. Become the advocate of his product or service. He must sell, sell, sell. He should rehearse his presentation until it will withstand experienced cross-examination. He must be prepared and be persistent;
2. Place special emphasis on researching the market;
3. Get professional assistance, but only for those aspects of the presentation in which he may be expected to lack expertise;
4. Demonstrate his own financial commitment before expecting others to supply high-risk capital;
5. Try to scale down grandiose plans into identifiable stages. Frequently, a small-scale pilot project can be easily financed. If it is successful, other stages of financing become easier;
6. Consider acquiring a profitable going concern onto which the new product or process may be added;
7. Attract prestigious people to the product or process (e.g. backers, suppliers, customers, users);
8. Get advance customer commitment and document their acceptance of the product or service;
9. Include in the proposal the negative factors as well as the positive;
10. Keep partners to a minimum in early stages. Otherwise too many people must agree on every detail before any steps can be taken;
11. Be stingy with equity but be realistic. Avoid giving away too much of the concept in the early stages before the major financing has been raised;
12. Avoid delays. The entrepreneur must take a leave of absence from his current employment, if necessary, to really give the proposal the attention and dedication it deserves;
13. Check, double check and then check out again, finders and financial consultants. A reputable counsellor is worth his fee—but there are some finders who will waste time and prostitute the proposal.

# Section 4

# START-UPS—FINANCING THE FIRST STAGES...AN EVEN GREATER CHALLENGE

The relationship between an entrepreneur and his financier can be compared to a marriage. The union will not occur without some element of romance—and it will not last unless the two parties have *complementary needs and capabilities.* Where start-up financing is required, the romance is made more difficult due to the high levels of risk inherent in a new business. Raising equity capital is difficult enough but raising equity capital for start-ups is even more difficult. In 1975, the Canadian venture capitalists invested approximately 10 per cent of their new investment capital in start-ups.

What are the increased business risks? Inertia unique to new businesses represents the largest hazard. It may occur in the marketplace because the public cannot be induced to buy the new product, or because the new company cannot finance speedy distribution of its product into the market. Often what a small company introduces, a large competitor capitalizes on. Another hazard could be an unforeseen change in technology which out-dates the new product, or an unexpected change in business climate which mitigates against a new company or product. For example, consider the entrepreneur who starts a business to build an improved portable lift-truck. Before launching the business the entrepreneur obtains informal commitments from his potential customers. However, as the new company swings into production, the country falls into a period of spending restraint and the entrepreneur is left with an inventory, overhead costs, etc., but only apologies from his projected customers. This story ends unhappily, even though it had a promising beginning.

## 4.1 Recognizing Risk in Start-Ups

Thus, the start-up faces increased risk in the areas of marketing, finance, technology and production, and each increment of perceived risk mitigates against venture capital involvement. While risk factors cannot be eliminated, they should be explicitly recognized by the entrepreneur, and minimized through thorough planning. Such planning should fully analyze the market and the cost of approaching it. Alternative products using the unique technology on which the project was formed should be considered. The plan should project the source and amount of future financing requirements. If possible, the management team should include personnel with experience in running operations similar to the proposed venture.

## 4.2 The Venture Capitalist Versus the Entrepreneur in the Start-Up

The needs of the venture capitalist are essentially threefold. Each deal must offer respectability, liquidity and profitability. The entrepreneur must therefore take special care in the selection of his management team and in dealing both before and after the venture capitalist's involvement.

1. The venture capitalist deals in one of the world's rarest commodities... money.
2. The venture capitalist is by nature a skeptic—the entrepreneur must be an optimist.
3. The venture capitalist spends full time assessing deals. He has a distinct advantage over the entrepreneur. The entrepreneur deals from weakness... he needs the money.
4. In the final analysis, the true venture capitalist does not want to actually run the business on a day-to-day basis. To the extent that he seeks control it is merely to protect his investment. As his investment is returned he will usually return control, if he took it in the first place.
5. Do not attempt to rush or pressure the venture capitalist. Urgency of capital needs frequently discloses poor planning... poor planning may mean poor management.

Liquidity is essential because by definition venture capital involvement is limited in terms of time. Liquidity is linked directly to growth. Thus, the initial presentation should include well thought out plans for the company's growth, and the financing of such growth. Profitability is at once the most understood and misunderstood requirement. In order to keep his own capital intact, let alone grow, the venture capitalist will require a larger return per investment than conventional secured investors. In first stage financings it is not unusual for a venture capitalist to require a return of seven to eight times his initial investment in five years. (This is equivalent to a compounded annual rate of return of 40 to 50 per cent).

## 4.3 How Venture Capitalists Evaluate a Start-Up

The variable ingredients that go into the evaluation are:

1. How much money has the entrepreneur put up relative to the total funds initially required?
2. What is the total in equity financing needed to launch the business? How much additional dilution over the years will be necessary to keep the business moving at the desired pace?
3. How attractive will the company and the industry be in the stock market and what price-earnings will it likely command?
4. What are the odds that the earnings and time projections can be met?
5. If the project does not progress as anticipated what part of the investment might be lost?
6. How good is the management or management team?

## 4.4 The Entrepreneur—The Man Behind the Start-Up

1. Begin by demonstrating that you have the experience and the skill to give birth to the new product or process.
2. Surround yourself with the best possible consulting assistance.
3. Approach the venture capitalist personally—avoid using your lawyer or accountant as a spokesman. The venture capitalist wants to assess you—not your advisers.

4. Build a team around yourself to offset your own deficiencies—but avoid approaching the venture capitalist as a team. Most successful businesses are led by one man who has the administrative skills to attract and retain people with complementary skills.
5. Demonstrate self-confidence and be prepared to show what is in it for you. The venture capitalist seeks a financial reward—he expects you to seek one too. He is not interested in a product that has great social value, great prestige but no economic return on investment. The company should not be simply an ego trip for the entrepreneur—it must be financially rewarding to the financial backers.
6. Demonstrate an ability to accept criticism. Be flexible and open to redirection.
7. Be prepared to deal with the question "What if I, as the venture capitalist, decide in three months that you are a great innovator and contributor but that you do not have sufficient skills to be the chief officer of the company?".
8. Make sure that any written submission is well spaced, not too wordy, avoids exaggerations and is easily read and understood by busy venture capitalists.

4.5 Improving the Odds of Financing a Start-Up

1. Be prepared to demonstrate total personal financial commitment. If you will not risk almost everything—the venture capitalist probably will not risk his money.
2. The *three* most important parts of the business plan for a start-up are—the MARKETING PLAN, the MARKETING PLAN, and the MARKETING PLAN—expend every energy to identify, document and prove it.
3. Technical uncertainties add to the already high risks in a start-up situation. Every possible step should be taken to identify and reduce technological risks.
4. Look for other sources of financing. Many large corporations that are not identified as venture capitalists in this book will finance new product ideas that complement their existing product line.
5. Recognize Murphy's Law—"If something can possibly go wrong, it probably will". To carry an innovative new product from start-up to a fully operational, going concern almost always involves unforeseen problems and delays. Identify back-up financing for staying power.

4.6 Reducing the Marketing Risks

The market plan is the cornerstone for all other plans. A good market plan is so fundamental to obtaining start-up financing that without it there is little hope. On the other hand, a convincing market plan will arouse serious interest from the venture capitalist.

1. The final marketing plan must demonstrate to the reader:
   (i) why customers will buy the product
   (ii) the extent to which it competes with existing products
   (iii) the extent to which customers are price sensitive in purchasing the product. Within what price range will they substitute your product or products
   (iv) what major influences on the purchasing habits of your customers are beyond your control
   (v) who your competitors are, what their financial resources are and what the profit margins are on competitive products. Could they merely cut prices to render you uncompetitive when you attempt to invade their market
   (vi) what is your break-even point and what market share does it represent
   (vii) what length of time would be required to get the product to market.
2. The marketing plan must encompass:
   (i) market research and evaluation
   (ii) an overall plan for sales, advertising and promotion
   (iii) recruiting of a direct sales force or alternative distribution plans
   (iv) ability to service with parts
   (v) familiarity with distribution channels

   Remember, the longer it takes to establish a product, or to develop a product line and gain customer acceptance, the smaller will be the ultimate return on investment and the greater will be the hazard of competition. If possible, pretest the package in the marketplace
3. Canadian venture capitalists frequently hold the opinion that for maximum return to be earned on a new or innovative product or process, it must be exploited in the United States market as well as in the Canadian market.
   (i) the United States market is more then ten times the size of the Canadian market and it therefore offers economies of scale not otherwise available
   (ii) delayed entry into the United States may reduce the duration of market leadership and expose the product to:
      a. competition
      b. duplication
      c. patent infringement
   (iii) where feasible consider in the first marketing plan, optimal entry into the United States market. Should it be through:
      a. separate venture financing of the United States operations (usually not acceptable to Canadian venture capitalists providing early first round high risk financing)
      b. joint venture
      c. licensing arrangement
      d. franchising

   Make sure the marketing plan for the start-up addresses itself to the United States market, wherever feasible. In the case of a patented product, make sure that good international patent protection is acquired early in the start-up.
4. Retain the best possible marketing consultants to assist in documenting the market. Too many entrepreneurs balk at paying the fees necessary to do a marketing feasibility study which is usually the real key to difficult start-up financing.

4.7 Reducing Technological Risk

1. The Americans and Russians have demonstrated on national television that it is feasible to build a spaceship to travel to the moon and beyond. They have not demonstrated that it is yet feasible to build and market a spaceship that is within the reach of the average North American family. Approximately 95 per cent of the new products that are patented today cannot be manufactured at a competitive, economic price.
2. The entrepreneur should look to federal and provincial governments for access to their laboratories and testing facilities. He should also turn to Canadian universities, their faculties and facilities. Technical problems could be the subject of doctoral and masters theses.
3. Where feasible prototypes should be built and tested under real market conditions.
4. Prototypes should be made available to potential customers to further "debug" the technology and to open a market. Letters of customer acceptance should be sought to use in proposals to financiers.
5. Detailed material cost forecasts should be developed indicating:
   (i) country of source
   (ii) price
   (iii) substitutes for critical components
6. Consider reducing the costs of tooling and machinery by:
   (i) developing a wide spectrum of subcontractors to job out complex components and to increase capacity in peak periods of demand
   (ii) standardize components to avoid problems in servicing and reduce exposure to obsolescence.
7. Recognize that most venture capitalists are not capable of evaluating high technology projects. Suggest to the venture capitalist independent people who have the ability to assess the technology.

4.8 New Products Occasionally Attract New Sources of Financing

We are now experiencing a depressed stock market. For the past three years the investment alternatives for venture capitalists and the people who finance them have offered high returns and low price-earning multiples. With so many good public companies selling below even unadjusted book value, the risks of innovative start-up are often relatively unattractive to an investor.

Recognize that there has been a flight of funds from venture financing and those that remain are more in demand and more expensive in a depressed stock market. They should be—for how else can the venture capitalist realize a return even on his successful investments.

Let us dispense with this pessimistic view of availability of capital by looking at sources frequently not tapped by Canadians.

Because of their increased risk, high required growth and managerial demands, start-ups are difficult to finance through venture capital. Entrepreneurs in first stage financing situations do have alternatives, some of which reduce the risk of inertia, the required financing and the extensive management input.

1. As discussed in the marketing plan, there are large potential markets for the new product or process in the United States, so do not be provincial in your search for equity capital. Consider approaching one of the 500 or more United States venture capital companies. Find out whether the Americans really are more venturesome. For leads see "Guide to Venture Capital Sources"—third edition—Stanley M. Rubel, Capital Publishing Corporation, Chicago, Illinois. The chances of attracting capital will usually be increased threefold if a consortium of Canadian and United States venture capitalists is attempted because:
   a. Canadian sources will be impressed with your awareness of the American market for your product
   b. American sources will be impressed that Canadians believe in you, and from an American perspective it also reduces the political risks
   c. There is strength in numbers. Second and third round venture financing is frequently required for start-ups. Consortia frequently expand more easily for second and third round financing
2. While monetary and economic conditions are not at present ideal, a number of European and Japanese trading companies are seeking investment opportunities in Canada, especially in products and processes that have international markets. These sources of European and Japanese funds can frequently be contacted by sending the business plan to the large foreign banks in Germany, Japan, France etc.
3. In this period of depressed stock markets and reduced sources of equity capital from the established venture capitalists, attention should be focused on the large corporations of Canada and the United States. They are occasionally good sources of venture capital, though they are seldom identified as such.
   (i) regardless of economic conditions, large corporations are under pressure to be innovative to sustain their growth
   (ii) they have the financial resources available to stay with the start-up during the unforeseen problem period
   (iii) they frequently have excellent marketing expertise and unused capacity
   (iv) they are usually not as demanding as traditional professional venture capitalists
   (v) they may have the background in related products or processes to make a prompt assessment
   (vi) foreign concerns may not be completely hard-nosed and may view a less-than-control investment in an innovative product in Canada as fulfilling their role in "good corporate citizens"
   (vii) multinational corporations can offer quick international exploitation of the product or process

(viii) to the extent that the product or process is an extension of some product or process that a multinational already has, it may be better to join them than to fight them.

There are some risks associated with this approach:

(i) what if they study the proposed product or process, reject it and then steal it? This is always a risk that cannot be completely eliminated, but a lawyer may be helpful in reducing this exposure. Get a written acknowledgment that they have received, read and rejected your proposal.

(ii) multinationals may be generous with the Canadian market but greedy when it comes to exploiting foreign markets. To adequately assess the degree of their greed, carefully determine what percentage of the company you will retain if the product or process encounters problems and two or three rounds of unplanned financing are necessary.

(iii) large corporations involve large bureaucracies which can present the kind of frustrations that the entrepreneur was attempting to avoid by going into business on his own.

(iv) if the product or process is successful, the large corporation may be the only available buyer of the entrepreneur's equity when he finally wants to sell out.

4. Some new products and processes will have significant social impact that may even outweigh the economic impact. In Canada a number of family fortunes may be sources of venture capital. If the product or process offers unique social contributions, consider approaching a family or charitable trust closely identified with the problems that your product or process eliminates or reduces.
5. Governments are often willing to assist in development and start-up phases where they can perceive a reasonable chance of success. They will expect same careful planning and management as any other investor, and usually will only provide partial funding project. Information on Government Programs is in section 5.
6. Where financing or management cannot be developed, licensing other producers to manufacture your product or use your process may be beneficial and preferable to doing it yourself.

## 4.9 Concluding Remarks—Start-Ups

Obtaining any kind of financing is a trying experience. Obtaining start-up financing is exceptionally difficult. The entrepreneur must be persistent, and fight hard to bring his project to fruition. When he encounters negative responses, he should request full explanations, and amend his plans or presentation accordingly. The creation and marketing of a new idea is an emotional experience, and is too important to be abandoned without exploring every possible source of support and encouragement.

# Section 5

# OTHER SOURCES OF FINANCING

5.1 **Has the Entrepreneur Exhausted Other Sources of Funding?**

It is important to recognize that common stock financing is expensive. When the founders sell a minority or majority interest in their organization, it is usually gone for good. Why surrender an equity interest in the business if it is not necessary? Furthermore, since all financing involves a process of bargaining, one party may well get the better of the other. The venture capitalist is a hard-nosed professional investor not encumbered by the emotional commitment of the founder. He is selective and seeks the best deal he can obtain.

Before considering venture capital the entrepreneur should thoroughly cover those sources of funds that do not involve a loss of equity.

Personal Resources—

Prospective investors—particularly large investors—will try to measure the founder's belief in his project by determining how far into "hock" he is prepared to go. The founder must be prepared to demonstrate his own commitment. If he is unwilling to risk his own resources why should an investor risk his?

Friends and Acquaintances

An entrepreneur must be capable of commanding the respect and trust of fellow employees, relatives, friends and acquaintances. If an individual is not capable of attracting this kind of support, he probably has a poor personal track record.

At times, cash poor but wealthy friends who would not otherwise make a cash investment can be induced with warrants to guarantee conventional bank loans. Guarantees should not be overlooked. They are valuable assets.

Banks -

Canadian chartered banks may, among other things, make working capital loans and term loans to a business enterprise. One cardinal rule of finance must be observed: "Long-term uses of funds should be supplied from long-term sources of funds—avoid imbalance in financing." The bank will not and should not be expected to provide most of the risk capital; but there is always a role for the bank, a role it is generally prepared to assume.

A well prepared financing plan in the form of budgets and cash flow projections is essential to induce the bank to supply a working capital loan, secured by receivables and inventory.

Guarantees by third parties may enable the company to increase the limit of this source of funds.

Finance Companies—

Industrial finance companies will ordinarily supply credit to an enterprise to finance machinery and equipment, either through a conditional sales contract or a leasing arrangement.

Manufacturer -

Frequently the manufacturer, in an effort to meet and beat the competition, will provide financing of machinery and equipment, and even certain services. Such financing may involve:

i) a lease arrangement
ii) special introduction to a finance company
iii) extended credit terms (occasionally for several years at normal interest rates).

These preferential arrangements are not always volunteered by the manufacturer. They are the result of skillful, hard-nosed, tactful negotiations by the buyer.

Customers—

Occasionally, customers may be encouraged to make advance payments prior to production or delivery of the goods or services. These prepayments may form a regular source of working capital. Special pricing and terms may be advisable and necessary to attract prepayments, deposits and outright loans.

Employees—

Frequently, junior and senior employees have capital or access to capital that they may be willing to commit to a company whose products, processes and people they know, understand and trust and whose progress they can monitor. A word of warning: it is difficult to remove, replace or retire an unproductive employee who has a large founding equity.

Factors –

In Canada there are several factoring companies which will purchase or lend, at a discount against a company's accounts receivable, and undertake to collect them on a notification or non-notification basis with or without recourse to the company itself. Factoring has its place but is an expensive source of funds.

Consultants and Finders—

The financial consultant (lawyer, accountant, investment dealer), retained by the company to assist in the preparation and presentation of the business plan, may have access to sources of finance and may bring his own enthusiasm to bear on inducing them to invest.

Investment Clubs—

While most investment clubs are small in terms of total assets, they provide access to funds from the club and, more importantly, from its members.

Suppliers—

Under competitive pressure suppliers may be prepared to provide financing not only through special, extended terms but also through direct debt or equity investment. A word of warning: if the enterprise receives significant debt and equity assistance, it may be placed in a compromising position when the supplier ceases to be competitive in terms of price, quality, delivery and service.

Investment Dealers—

Investment dealers should be capable of providing access to funds for worthy products and processes. They may assist the company through:

i) private placement of the company's debt and/or equity securities;
ii) public offering.

Government Assistance—

The federal and provincial governments of Canada continue to expand and extend their financial assistance to Canadian businesses. No one should undertake financing a business in Canada today without determining his eligibility for government assistance.

Franchising and Licensing—

Occasionally the founders may be able to attract other entrepreneurs to their products and services. Franchising and licensing may produce the funds necessary to launch the concept on a scale large enough to make it immediately economic.

### 5.2 Is Going Public an Alternative to Venture Capital Financing?

Going public is not really an alternative to venture capital financing. Venture capital is a different and earlier stage in the financing life cycle of a business. In unusual stock market periods venture capital will at times overlap with going public. There have been cases in which the concept requiring financing involved so much risk that venture capital companies rejected the opportunity, only to see it ultimately financed through a public offering, albeit a best efforts offering. There are, however, exceptional cases.

Many small and medium-sized companies are restricted in their prospects for rapid and profitable expansion only by being undercapitalized and by their limited access to capital. For many of these companies the question of going public is not completely out of the question. There are, however, a number of circumstances under which a public offering should be deferred and venture capital should be regarded as the appropriate intermediate step in the financing cycle.

1. With the additional equity capital that the venture capitalist is prepared to supply, a company may be able to obtain debt financing through institutional sources otherwise not available. This combination of equity and debt may have an overall lower cost than complete common stock financing through a public offering. If the venture capitalist is prepared to guarantee debt, the door may be opened even further to debt financing.
2. When a company is financed through an experienced venture capitalist, a setback in the operating results need not be fatal as long as the venture capitalist has not lost confidence. Most venture capitalists have seen financial reverses dozens of times and do not panic easily.

   Experience has shown that most companies' performances do not meet the promoters' expectations and, consequently, more money is required to meet the objectives than was originally anticipated. If the company requires more money, the venture capitalist may even be prepared to invest additional money on short notice with no costly and lengthy prospectuses or unfavourable operating results to live down. On the other hand, public companies may not enjoy this kind of flexibility in their access to financing.
3. Raising money through a new issue of shares to the public is a long and precarious process involving a good degree of timing and luck. Many medium-sized companies, after a sincerely favourable and honestly enthusiastic expression of interest by an underwriter, have started down the long (three to six months) and expensive ($25,000 to $75,000) road to a public offering only to find that, by the time all hurdles had been cleared, stock market conditions had so changed that an underwriting could not be made successfully. Venture capital as a form of financing usually involves less time, as no prospectus is necessary, and less direct expense. In addition, the financing itself is seldom dependent upon the short-term swings of the stock market. For a company not dependent on public financing, the collapse of the new issue stock market is not a setback to the financing.
4. When the new issue market is running wild, there is a temptation to float new companies chiefly to merchandise them on the new issue market. The result is that many companies and individuals who should not have been, are financed. Others are rushed to market before they are ready, frequently with unfortunate results both for investors and entrepreneurs.

To summarize, venture capital is a financing stage, prior to going public, that manifests itself in a wide variety of types of deals. The investor expects to reap large rewards, but is willing to accept the higher risks of a smaller, less stable company. From the company's point of view, it receives an interested, experienced and usually helpful shareholder who is prepared to back it when others probably would not. It allows the company's management to become accustomed to the glare of public scrutiny in a more leisurely fashion than does going public.

Venture capitalists do not ordinarily compete with the underwriters of public issues. In fact, an eventual public underwriting is frequently the ideal way for venture capitalists to repatriate their investment. They recognize that, when companies become sufficiently large and profitable, financing must then be arranged by the established underwriters.

### 5.3 An Indirect Approach to Start-up Financing

Many prospective entrepreneurs have been frustrated by their complete inability to interest strong investors in their product or service concepts. Many have simply given up. It must be recognized that investors have the right to be hard-nosed. Frequently, the bulk of the risk is theirs. It is simply not that easy to interest investors in an absolutely untried production process or service. The would-be entrepreneur faced with a rejected start-up might consider the following alternative.

Look for a small to medium-size business that is for sale. By purchasing a going concern, the entrepreneur may gain a number of benefits, all of which may be used to launch his own new dream product or service.

The benefits from a going concern may include:

i) immediate profits;
ii) unused productive capacity;
iii) existing sales force and channels of distribution;
iv) a built-in management team;
v) firsthand experience in running a going concern;
vi) an opportunity to reduce fixed costs;
vii) an established product line to fall back on when the start-up product hits tough going;
viii) other income to absorb probable start-up losses;
ix) established access to funds.

Ironically, it may be significantly easier to finance the acquisition of an existing profitable business than to raise money for a complete start-up. Once the going concern is acquired the start-up product or service may be added to the existing product lines.

It would be a gross misrepresentation to portray the acquisition of a going concern as the panacea to the would-be entrepreneur. On the contrary, the acquisition of an established business may double management's headaches. For every advantage cited, there is obviously a related disadvantage. The cumulative effect of these disadvantages may hamper or kill any opportunity to really develop the start-up product. Nevertheless, as an alternative, it has its place but the greatest care must be taken to find the right vehicle.

### 5.4 Government Assistance—Some Things to Keep in Mind

1. Leave No Stone Unturned

   No financing program is complete unless the company has thoroughly researched the availability of government assistance. Federal and provincial programs are increasing in number, scope and flexibility. The assistance takes many forms: cash grants, cost-sharing, repayable loans, forgivable loans, technical assistance and even equity participation.

2. Debt-Equity Balance

   To the extent that government assistance is available by way of loan (debentures, mortgages, etc.), the company can create a capital structure which has a balance of debt and equity. The founders may then be required to contribute only the equity.

3. Seek Prior Approval and Avoid Prior Commitment

   Under many of the programs, assistance is available only to companies which:

   i) obtain prior approval of the project from government;
   ii) have no prior commitment or contractual obligation to undertake the project before applying for government assistance;
   iii) are able to demonstrate that they would be unable to undertake the project without government assistance.

4. The Programs Are Flexible

   While each program provides literature describing its scope, purpose and objectives, a potential applicant should not be discouraged from enquiring and applying even though the project does not fit squarely within a program. The applicant may be surprised to find that he fits into:

   i) a special exception under a program;
   ii) assistance under another program.

5. Be Prepared to Demonstrate

   i) That the applicant company has the technical, marketing, manufacturing, financial and managerial skills to carry out the project;
   ii) The benefits to Canada in terms of:
      1. employment
      2. expansion of other industries and services
      3. use of Canadian manufactured goods.

6. Be prepared to show to government the same kind of comprehensive business plan that a potential equity investor expects to see.
7. Involve the whole management team (including technical people) in the approach to government.
8. Depending on the level of government assistance obtained, the future sale of equity to non-residents may be disallowed under the terms of the Foreign Investment Review Act.

### 5.5 GOVERNMENT ASSISTANCE—AN OVERVIEW OF THE VARIOUS FEDERAL GOVERNMENT ASSISTANCE PROGRAMS

#### 1. THE ENTERPRISE DEVELOPMENT PROGRAM (EDP)

The purpose of this program is to help small and medium-sized companies undertake high risk projects which promise attractive rates of return. The following forms of assistance are available.

a. Contributions to develop proposals for projects eligible for assistance, in which the grant partially offsets the cost of hiring consultants. The consultants will provide adequate information concerning proposals for innovation and adjustment assistance so that the projects can be rapidly evaluated and decisions quickly made by the Program administrators.

b. Contributions to study market feasibility in order to reduce marketing risks associated with the development of innovative products or the restructuring of faltering companies.

c. Contributions to study productivity improvement projects, which partially offset the costs of consultants qualified to determine the most effective methods, machinery, or techniques for reducing costs;

d. Contributions for industrial design to partially offset the costs of using qualified industrial design services to improve product design;

e. Contributions for innovation to partially offset the development of new or improved products or processes or services which incorporate an advance in technology and offer good prospects for profitable commercial exploitation.

f. Loans, or loan insurance for adjustment projects, to help small and medium-sized companies compete internationally. In some cases, these companies face such high risks of failure in competing internationally, that they cannot

get adequate financing for the equipment and working capital which is required to reduce costs to a level where adequate profits are generated. The Enterprise Development Program can provide loan insurance, that is, guarantee a portion of the loan. In situations where the company has been directly injured by import competition, the program can provide direct loans.

Since these loans are inherently very risky, some other forms of assistance are usually also provided, such as grants to prepare restructuring proposals or to study productivity improvement;

g. Special purpose assistance to meet specific objectives:
   1. loans and grants to encourage restructuring of firms engaged in footwear or tanning.
   2. insurance on surety bonds for off-shore turnkey projects.
   3. insurance on loans, leases, and conditional sales agreements.

In order to be eligible for these assistance programs, firms should be engaged in manufacturing or processing; or if they are services industries, the service affected by the project should be of direct, tangible and significant benefit to firms engaged in manufacturing or processing. Although only applicants for innovation and industrial design grants must be incorporated; preference is generally given to incorporated companies. In general the following criteria must be met:

a. the firm and the project must be viable
b. for loans and loan insurance, the firm must be unable to obtain financing on reasonable terms
c. for contributions, the project must represent a significant burden to the firm in respect of its resources

For further information contact:

Enterprise Development Branch, Department of Industry, Trade and Commerce, 240 Sparks Street, Ottawa, Ontario, K1A 0H5.

### 2. SHIPBUILDING INDUSTRY ASSISTANCE PROGRAM (SIAP)

Assistance under this program is available to companies engaged in the building and conversion of ships of over specified minimum sizes. Fishing boats of 75 feet or less are assisted by a different program, administered by the Department of Fisheries and the Environment.

For further information contact:

Transportation Industries Branch, Department of Industry, Trade and Commerce, 240 Sparks Street, Ottawa, Ontario, K1A 0H5.

### 3. PROGRAM FOR EXPORT MARKET DEVELOPMENT (PEMD)

1: This program assists established Canadian suppliers of goods and services to enter new export markets or to undertake additional export development activities by sharing the costs incurred thus reducing the risks involved.

The incentives offered under PEMD are in the form of financial contributions where there is a proven need to share the risk of developing and/or maintaining overseas markets; bidding on capital projects of unusual size or complexity; unusual international competition or creating an export consortium to meet sales opportunities abroad. These contributions are repayable to the Crown if export sales are achieved. Repayment is not required if sales or contracts are not obtained.

For further information contact:

Program Office, PEMD, Office of Export Programs and Services, Department of Industry, Trade and Commerce, 240 Sparks Street, Ottawa, Ontario, K1A 0H5.

### 4. MACHINERY PROGRAM

This program encourages the expansion and efficiency of Canadian manufacturing by (1) providing a reasonable measure of tariff protection to machinery manufacturers, and (2) enabling users of machinery to obtain remission of duty on imported capital equipment which is not available from Canadian production. The program deals with all machinery and equipment imported under Tariff Item 42700-1, which covers the bulk of Canadian machinery imports.

For further information contact:

Machinery and Equipment Advisory Board, Department of Industry, Trade and Commerce, 240 Sparks Street, Ottawa, Ontario, K1A 0H5.

### 5. DEFENCE INDUSTRY PRODUCTIVITY PROGRAM (DIP)

The purpose of the DIP program is to develop the technological capability of Canadian industry for defence and civil export sales employing defence technology.

Assistance includes:

(a) Support of selected research and development.
(b) Payment of one-half of the cost of acquisition of new equipment for plant modernization.
(c) Support of the establishment of production capacity and qualified sources for production of equipment component parts and materials on terms and conditions approved by Treasury Board.

For further information contact:

DIP Program Office, Department of Industry, Trade and Commerce, 240 Sparks Street, Ottawa, Ontario, K1A 0H5.

### 6. AGRICULTURAL AND FOOD PRODUCTS MARKET DEVELOPMENT ASSISTANCE PROGRAM (AGMAP)

The purpose of the program is to encourage sustained growth of Canadian agricultural and food products in export and domestic markets.

Qualifying Activities:

Three general types of projects can qualify under the program; feasibility projects, including market definition and commercial feasibility for new or existing

products and processes; including market and product process development; Canadian capability projects, designed to establish in Canada capabilities which are currently lacking.

Canadian companies, associations, universities and similar entities are eligible.

The three forms of assistance are: non-recoverable contributions, recoverable contributions and contingent contributions. The nature and extent of assistance will depend on the specifics of each application.

For further information contact:

Programs Division, Agriculture, Fisheries and Food Products Branch, 240 Sparks Street, Department of Industry, Trade and Commerce, Ottawa, Ontario, K1A 0H5.

## FEDERAL BUSINESS DEVELOPMENT BANK (FBDB)

The Federal Business Development Bank (FBDB) is a Crown Corporation which succeeded the Industrial Development Bank on October 2, 1975. The bank assists the growth and creation of business enterprises across Canada by providing them with financial and management services. It supplements such services available from others and it gives particular attention to the needs of smaller enterprises.

### Financing

**Who is eligible and terms**

FBDB extends financial assistance to new or existing businesses of almost every type in Canada which do not have other sources of financing available to them on reasonable terms and conditions.

The qualifications for FBDB financing are:

a) that the amount and character of investment in such a business by persons other than FBDB may reasonably be expected to ensure the continuing commitment of these persons to the business, and

b) that the business may reasonably be expected to prove successful.

**Types of financing—purposes, size, repayment**

FBDB financing is available by means of loans, loan guarantees, equity financing, or leasing, or any combination of these methods, in whatever manner best suits the particular needs of the business. Where loans are involved they are made at interest rates which are in line with those generally available to businesses. Security is usually a first charge on fixed assets. Where equity is involved, FBDB normally takes a minority interest and is prepared to have its investment repurchased on suitable terms.

FBDB loans are usually repaid by way of monthly instalments of principal and interest, although where the particular needs of the business would make it appropriate, other arrangements may be considered.

### Management Services

In addition to its financial services the FBDB provides for small businesses Management Counselling, Management Training, and Information Services, known collectively as Management Services. The objectives of these services are to promote and assist in the establishment and development of small businesses in Canada.

For further information about the services of the bank, telephone, write or visit any of the 88 FBDB offices located across the country. A descriptive folder is available upon request.

### Management Counselling

CASE (Counselling Assistance for Small Enterprises) is a management counselling service wherein retired business persons act as counsellors on behalf of the Bank. Its purpose is to assist owners and managers of business enterprises, particularly those of smaller size, to improve their methods of doing business. Also it provides an opportunity for retired business people to contribute to the development of the small business community by making available a vast store of knowledge and experience. To be eligible a business may already be established, or be about to engage in business in Canada.

Any proprietorship, partnership or limited company conducting virtually any type of business enterprise in Canada can apply provided:

1) the enterprise does not have more than 75 full-time employees; 2) the enterprise has had prior discussion of its problem(s) with its appropriate business adviser(s).

The only charge is $20 per 7-hour day for each counsellor assigned.

### Management Training

The Bank conducts an extensive series of one-day management seminars at many centres across Canada. The seminar programs are designed particularly for small businesses and cover a variety of topics related to small business management. A moderate registration fee is charged. The seminars are advertised locally in advance.

The Bank also prepares seminars for specific industries in collaboration with industry associations and other organizations which present seminars to their members.

The Bank prepares and distributes 30-hour courses on small business management topics to Ministries of Education across Canada for adult education programs co-ordinated by those Ministries at local colleges.

### Information Services

**Small Business Information Services**

The Bank's Small Business Information Service, an enquiry and referral service about government and other assistance programs for small business, is available at the Bank's 80-odd offices across Canada. A series of booklets called "Minding Your Own Business" is distributed free on request and covers many aspects of small business management. A quarterly news bulletin, "Small Business News" is also distributed free to help small business keep in touch with business developments. Each office of the Bank has a library of useful publications on small business management that may be examined by business people.

## DEPARTMENT OF REGIONAL ECONOMIC EXPANSION (DREE)

The incentive program of the Department of Regional Economic Expansion is designed to stimulate increased manufacturing investment and employment in slow-

growth regions. Cash grants and/or loan guarantees are used to encourage entrepreneurs to locate in regions designated for incentive assistance or, for industries already established in those regions, to expand or modernize.

These regions include all of the provinces of Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island, Manitoba, Saskatchewan, together with most of the province of Quebec (excluding the Montreal-Hull corridor). Designated regions in Ontario include a large part of Northern Ontario, down to and including the districts of Parry Sound and Nipissing.

### GRANTS

**Objectives**
To establish new manufacturing or processing facilities; to expand or modernize existing plants, in designated regions to reduce existing regional disparities.

**Criteria**
Project must be placed in a designated area. Other criteria as contained in the Regional Development Incentives Act.

**Forms of Assistance**
Two types of incentives are available:

—development incentives

—loan guarantees

Direct inquiries to:

Industrial Incentives Branch
Department of Regional Economic Expansion
161 Laurier Avenue West
Ottawa, Ontario
K1A 0M4

or Regional and Provincial Offices

## DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

### SMALL BUSINESS LOANS

The proprietor of a small business enterprise or someone who is about to establish a new business enterprise is eligible for a loan. This may be a sole proprietor, a partnership or a limited liability company.

A small business enterprise is eligible if its annual gross revenue does not exceed $1,500,000 during the year in which the application is made or, in the case of a new business, the estimated gross revenue in the first fiscal period, which is of not less than 52 weeks duration, does not exceed $1,500,000. Loans may be made to small businesses operated for gain or profit in Canada that are engaged in any of the following fields of industrial or commercial activity: manufacture, transportation, wholesale or retail trade, construction, communications, service.

**Where to Get a Loan**
A loan may be obtained at any chartered bank or at any credit union, caisse populaire, other co-operative credit society or trust company designated by the Minister of Finance as a bank for the purposes of the act.

**Purpose**
Loans may be made for any of the following purposes:

- fixed equipment loans—for equipment of a kind usually fixed to real or immovable property;
- movable equipment loans—for equipment of a kind not usually affixed to real or immovable property;
- premises loans—for the purchase, construction, renovation, improvement or modernization of premises.
- land loans—for the purchase of land necessary for the operation of a business enterprise including buildings thereon.

**Conditions**
The terms and conditions of a loan are worked out between the applicant and the lender. In all cases, however, the following basic conditions must be met:

- the maximum which a business may have outstanding under the act at any one time is $75,000;
- applicants must provide a reasonable portion of the cost of the purchase or project from their own resources;
- the maximum period over which a loan can be repaid may not exceed 10 years.

**Restrictions**
The following are not eligible for financing under the program:

- refinancing of existing debts or working capital requirements;
- business enterprises engaged in finance, real estate, insurance or the business of a profession;
- charitable and religious nonprofit organizations

**Application for a Loan**
A business person seeking assistance should first discuss any financial requirements with the manager of a lending agency. Further information on the program is available from:

Programs Branch
Department of Industry, Trade and Commerce
Ottawa, Ontario
K1A 0H5

### THE UNSOLICITED PROPOSAL PROGRAM

The Unsolicited Proposal Program is an adjunct to the general policy that government funded research and development should be contracted out to Canadian industry. The original policy was established in 1972 and expanded in 1974 to provide for the consideration and financing of Unsolicited Proposals for Research and Development from the private sector. The adjunct provides industry with an additional opportunity to participate in government science programs. The Department of Supply and Services has been made centrally responsible for the procedure to handle these proposals and has been given funds, currently $12 million per annum, to provide financing for those proposals that are accepted by government departments from the point of view of mission and priority, but which cannot be funded from the current appropriations of the sponsoring department. Enquiries regarding this program should be directed to:

The Director General of
The Science Centre
Supply and Services Canada
Ottawa K1A 0S5.

## DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT (IAND)

**Small Business Funds**

The Department of Indian Affairs and Northern Development has provided two separate funds for the N.W.T. and Yukon small business entrepreneurs which are administered by the territorial governments.

In the Yukon, $600,000 is made available annually (plus any repaid principal from loans which have been assured) for acquiring or expanding a northern business. The maximum loan is $50,000 and must be repaid within 10 years.

The N.W.T. Government's fund can also be used for acquiring or expanding a northern business under the following conditions:

(a) maximum loans of $100,000;

(b) up to 15 years to repay in some cases;

(c) loans for working capital or to retire debts.

Interested persons should contact the nearest territorial government office or should direct enquiries to:

The Territorial Treasurer
Government of Yukon
Whitehorse, Yukon

The Department of
Economic Development
Government of Northwest
Territories
Yellowknife, N.W.T.

## CANADIAN PATENTS AND DEVELOPMENT LIMITED (CPDL)

CPDL is a Crown Corporation responsible for arranging the commercial exploitation of inventions arising from government financed research carried out by government departments, universities and public research institutions. In this capacity, CPDL screens disclosures from its various sources, and arranges to patent those deemed to have commercial potential.

CPDL maintains an inventory of such inventions, which are available for license, and which it advertises to industry by means of trade shows, technical publications and an "Inventions Catalogue".

The company is assisting the University of Waterloo in the provision of a service to inventors, designed to provide an early assessment of the potential of an invention, along with recommendations as to the need for further development, markets, etc., for a flat fee of $50. The inventor retains the full rights.

Correspondence with respect to the licensing of existing inventions should be directed to:

Canadian Patents and Development Limited
275 Slater Street
Ottawa, Canada
K1A 0R3
(613) 996-5330

Correspondence concerning services to inventors should be directed to:

The Inventors' Assistance Program
Office of Research Administration
University of Waterloo
Waterloo, Ontario
N2L 3G1

## FASHION DESIGN ASSISTANCE PROGRAM (FDAP)

The primary objective of the Fashion Design Assistance Program is to increase the international competitiveness of the Canadian apparel, textile and leather industries by:

(a) increasing the number of well trained creative fashion designers in Canada;

(b) developing an environment which will stimulate increased creative fashion design activity in these Canadian industries;

(c) building an image of Canada as a source of creative fashion merchandise in order to attract Canadian and foreign buyers.

There are two main components of the program, which are administered by a board of directors under the registered name FASHION CANADA:

(1) The designer development component has as its aim the encouragement of greater opportunities for the development and appreciation of trained Canadian fashion designers to work in a climate which will foster creative design in Canada.

Bursaries for advanced studies and research grants are available to those individuals showing evidence of the necessary creative talent, motivation and self-discipline to meet competition in the market. Applications for bursaries must be submitted for screening by the Committee for Designer Development.

(2) The promotional component is to contribute to a national climate of fashion awareness through the continuing promotion of good Canadian design.

All designs accepted as examples of good Canadian fashion are identified to the consumer by a logo tag. Consumer, retailer and press-oriented programs, organized through industry associations are produced to encourage a national pride in the quality of our industry's design standards and international recognition of Canada as a source of good fashion.

Direct enquiries to:

Fashion Design Assistance Program
Department of Industry, Trade and Commerce
240 Sparks Street
Ottawa, Ontario
K1A 0H5

## CANADIAN FILM DEVELOPMENT CORPORATION (CFDC)

CFDC was created to foster and promote the development of a feature film industry in Canada. It is empowered to provide investment and loan funds to assist in the production of (a) feature films designed for release in major motion picture theatres and on television in Canada and abroad, and (b) feature films on low budgets produced primarily for the purpose of developing new talents.

Address enquiries to:

Co-ordinator of English Language Projects
The Canadian Film Development Corporation
Suite 602
111 Avenue Road
Toronto, Ontario
M5R 3J8

or

Administrateur des projets français
Société de développement de l'industrie
cinématographique canadienne
800 Place Victoria
Suite 2220
Montréal, Québec
H4Z 1A8

**EXPORT DEVELOPMENT CORPORATION (EDC)**

The Export Development Corporation (EDC) is a Crown Corporation established to facilitate and develop trade between Canada and other countries by means of the financial and other powers provided by the Export Development Act.

EDC is active in three fields—export lending and guarantees; export credits insurance; and foreign investment insurance.

Direct enquiries to:

Export Development Corporation
P.O. Box 655
110 O'Connor Street
Ottawa, Ontario
K1P 5T9
or contact one of the regional offices.

**CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA)**

The Canadian International Development Agency handles all international development programs sponsored by the federal government. To stimulate the participation of Canadian companies in international development, through joint ventures in developing countries, CIDA's Business and Industry Division offers support for starter and feasibility studies. Small and medium-scale processing and manufacturing plants are encouraged.

**Aid for Exploratory Investment Studies in Developing Countries**

Individuals, as sole or joint owners of a business, and Canadian companies, can get reimbursement for the approved costs of a preliminary study on the possibility of establishing, in a developing country, a business owned either independently or jointly with a local resident.

As part of CIDA's pre-investment promotion program, such payment can go as high as $2,500.

**Aid for Feasibility Studies Aimed at Establishing Enterprises in Developing Countries**

The Canadian International Development Agency can also reimburse 50 per cent of the allowable expenses incurred during feasibility studies on starting a business in a developing country. Such studies involve a thorough analysis of the management aspects of the enterprise and the effect of its activities on the economy of both the recipient country and Canada. This type of CIDA aid may go up to $25,000.

An application for a feasibility study grant can be considered when an exploratory study has shown that investment conditions are promising and a more advanced study is desirable.

Direct enquiries to:

Business and Industry Division
Canadian International Development Agency
122 Bank Street
Ottawa, Ontario
K1A 0G4

or

Suite 902
1020 Beaver Hall Hill
Montreal, Quebec

**DEPARTMENT OF FISHERIES AND THE ENVIRONMENT (DFE)**

**The Development and Demonstration of Pollution Abatement Technology (DPAT)**

The Pollution Abatement Program is designed to stimulate the development and demonstration of new technology for the abatement of pollution in Canada. The chief concern is with air and water pollution control (capture and containment of sulphur-dioxide and fine particulates, and in control of discharge of oxygen-demanding substances and toxic pollutants to receiving waters).

DPAT is a cost-shared program with Canadian industry. The cost share is negotiable and depends in part on the risk involved and potential benefit to be derived from the project.

The program makes provision for sharing selected capital costs as well as normal development and operating costs. An important part of the program is its emphasis on the solution of national pollution problems. The technology developed should therefore have wide applicability in Canada. There is no research component in the program; it is entirely concerned with development and demonstration of the technology. Because the program is national in scope, DPAT contracts will provide that any new pollution control technology development with the aid of the program can be transferred without royalties, or licence fees, to any Canadian industry which may benefit from it.

Direct enquiries to:

DPAT Secretariat
Environment Protection Service
Environment Canada
Ottawa, Ontario
K1A 0H3
(613) 997-2057

**NATIONAL RESEARCH COUNCIL (NRC)**

Within its capabilities, NRC attempts to meet the research needs of industry in Canada through the research of its laboratories, staff consultations, technical information services, project grants or contracts and other forms of assistance. NRC will complement and assist research in industry and will encourage and assist, where feasible, R & D projects to be carried out in industry.

The major NRC services to industry include:

1) The Industrial Research Assistance Program (IRAP)

The purpose of this program is to aid Canadian companies wishing to expand through new product development. Under the program, NRC shares approximately 50 per cent of the costs of selected research projects which are carried out by industry and which are of more than usual significance to the company's future and which hold some promise of making a significant contribution to the economic well-being of the country.

2) Pilot Industry/Laboratory Program (PILP)

This program is designed to promote a more rapid transfer to industry of the research results of NRC's laboratories and involves co-operative research between the laboratories and industrial firms, in which the latter may continue the development of NRC concepts to the commercially exploitable stage. In case of high risk, it is possible that PILP will completely cover developmental costs.

3) Scientific and Technical Information Services

The Canadian Institute for Scientific and Technical Information (CISTI) combines in one umbrella group all of the NRC activities related to the acquisition, storage and dissemination of scientific and technical information. These include the:

(a) NRC Library which contains the most comprehensive collection of scientific and technical literature in Canada and it may be used by anyone in industry or business on a 24-hour a day basis. Computer data bases are used to provide a selective dissemination of information and an on-line information search capability (CAN-OLE) which may be accessed through local computer terminals.

(b) Technical Information Service—TIS provides technical information to Canadian companies (at no cost) in response to specific requests. It is staffed by engineers familiar with industrial problems and practices and who are trained to locate information relevant to the enquirer's needs. Field officers are located across the country for easy access by industry. Currently this service is responding to some 22,000 specific enquiries per year, providing more extensive industrial information assistance to some 800 firms and is sending out approximately 150,000 technical briefs yearly.

4) Industrial Post-Doctoral Fellowships

Under this program NRC shares with industry the costs of employing graduate Ph.D.'s in industrial research work.

5) Regional Laboratories and Offices

NRC operates regional laboratories in Halifax, Saskatoon and Vancouver which can provide advice and service to local industry and in addition the Technical Information Service has 16 field offices across the country.

6) Major Test Facilities

NRC builds and operates major engineering test facilities which are available for use by industry. These include wind tunnels, engine test facilities, low temperature laboratories, marine dynamics and ship laboratory, etc.

For further information contact:

The Industrial Programs Office
National Research Council of Canada
Building M58
Montreal Road
Ottawa, Ontario
K1A 0R6

### 5.6 Government Assistance—An Overview of Various Provincial Government Assistance Programs

#### 5.6.1 Alberta

1. **Alberta Opportunity Company**

The company may make term loans for acquisition of fixed assets or working capital, may guarantee loans made by banks for operating credit and may make or guarantee inventory loans for manufacturers.

The regulations to the Alberta Opportunity Fund Act provide for financial assistance to local development organizations—companies, associations and groups formed for the purpose of stimulating industrial development and expansion within their communities.

Direct inquiries to:

Alberta Opportunity Company
P.O. Box 1860
Ponoka, Alberta
T0C 2H0

#### 5.6.2 British Columbia

1. **British Columbia Development Corporation (BCDC)**

BCDC is empowered to provide loans, loan guarantees, lease financing and technical assistance to business enterprises in the province, provided that 40 per cent of the equity of such business is owned by Canadians.

Direct inquiries to:

British Columbia Development Corporation
272 Granville Square
200 Granville Street
Vancouver, British Columbia
V6C 1S4

#### 5.6.3 Manitoba

1. **Manitoba Development Corporation (MDC)**

Assistance takes the following forms:

Mortgage loans and, in certain circumstances, equity financing are available to businesses in Manitoba.

Direct inquiries to:
Manitoba Development Corporation
600-428 Portage Avenue
Winnipeg, Manitoba
R3C 0E4

2. **Incentives Program for Industry**

There are six programs available involving a cost sharing arrangement to a maximum of $20,000 for a two year period. The program shares:

i) research and development costs;
ii) production feasibility studies;
iii) technical improvement studies;

iv) design improvement;
v) export development costs;
vi) manpower development costs.

3. **Communities Economic Development Fund**

Loans and loan guarantees are made to small, locally owned businesses engaged in manufacturing, tourism or services. The loans are made on a regional basis, in respect of land and buildings.

Direct inquiries to:
Communities Economic Development Fund
382 Portage Avenue
Winnipeg, Manitoba
R3C 0C6

### 5.6.4 New Brunswick

1. **Department of Commerce and Development**

The department provides direct loans or guarantees loans as a lender-of-last-resort. Security is usually a first mortgage. In addition, the department conducts economic studies of market, resources, labour, transportation and economic viability.

Direct inquiries to:
Department of Commerce and Development
P.O. Box 6000
Fredericton, New Brunswick

2. **Provincial Holdings Limited**

A Crown Corporation established to administer the province's equity position in various companies. It is prepared to invest in additional situations.

Direct inquiries to:
Provincial Holdings Limited
c/o Department of Commerce and Development
P.O. Box 6000
Fredericton, New Brunswick

### 5.6.5 Newfoundland

1. **Newfoundland Labrador Development Corporation**

Loans at competitive rates to a maximum of 300 per cent of the owner's equity and equity investments, in some circumstances, to help companies meet equity requirements of federal programs administered by the Department of Regional Economic Expansion for small to medium-sized businesses. Application will not be accepted for projects involving a capital cost in excess of $1 million. In addition, the corporation will be carrying out a management advisory program.

Direct inquiries to:
Newfoundland and Labrador Development Corporation
P.O. Box 1738
St. John's, Newfoundland

2. **Department of Rural Development**

Incentive grants of 50 per cent of capital costs for expansion, modernization or establisment of a primary (limit $30,000) or secondary (limit $12,500) manufacturing or processing facility. Interest free loans (maximum $20,000) are also available.

Direct inquiries to:
Department of Rural Development
Province of Newfoundland
Confederation Building
St. John's, Newfoundland

### 5.6.6 Nova Scotia

1. **Nova Scotia Resources Development Board (NSRDB)**

For eligible new projects loans not exceeding 75 per cent of the total cost of lands, buildings, equipment and other assets provided by the borrower as security, are made by the board. Loans for eligible expansion projects will also be considered.

Direct inquiries to:
The Nova Scotia Resources Development Board
P.O. Box 519
Bank of Montreal Tower
Halifax, Nova Scotia
B3J 2R7

2. **Industrial Estate Limited (IEL)**

IEL will finance up to 100 per cent of the cost of land and buildings and up to 60 per cent of installed cost of new machinery.

Direct inquiries to:
Industrial Estate Limited
Suite 700
5151 George Street
Bank of Montreal Building
Halifax, Nova Scotia
B3J 1M5

### 5.6.7 Ontario

1. **Ontario Development Corporation (ODC),**
**Northern Ontario Development Corporation (NODC),**
**Eastern Ontario Development Corporation (EODC)**

These Ontario Crown Corporations assist companies by:

(a) **Incentive Loans**

To encourage industrial and economic development in the province. The loans are repayable, but capital and/or interest payments may be deferred for periods of up to five years.

(b) **Term Loans**

Tailored to meet a variety of business development requirements in locations and situations where financing is not available from conventional sources on reasonable terms and conditions. Term loans include: Small Business Loans, Venture Capital Loans, Export Support Loans, Pollution Control Equipment Loans, Tourist Industry Loans, Industrial Mortgages and Leasebacks.

Direct inquiries to:

Ontario Development Corporation
Northern Ontario Development Corporation
Eastern Ontario Development Corporation
Mowat Block
900 Bay Street
Toronto, Ontario
M7A 1T5

Branch Offices:
ODC—London, Orillia;
NODC—Sudbury, Thunder Bay, Timmins;
EODC—Ottawa, Kingston

5.6.8. **Prince Edward Island**

1. **Industrial Enterprises Incorporated**

The corporation is empowered to:

i) purchase, develop and lease industrial sites;
ii) make first mortgage loans on facilities such as land, buildings, machinery and equipment;
iii) make equity investments;
iv) make loan guarantees.

Direct inquiries to:
Industrial Enterprises Incorporated
West Royalty Industrial Park
Charlottetown
Prince Edward Island
C1E 1B0

2. **P.E.I. Lending Authority**

Provides capital loans and working capital to farming, fishing, tourism operations and support industries.

Direct inquiries to:
Prince Edward Island Lending Authority
Kent Place
180 Kent Street
Charlottetown
Prince Edward Island
C1A 7N1

5.6.9. **Quebec**

1. **Quebec Industrial Development Corporation (QIDC)**

Assistance is provided to manufacturers and processors by means of:

i) low interest term loans;
ii) loan guarantees;
iii) forgivable loans;
iv) construction and leasing of plants;
v) direct equity investment;
vi) leasebacks;
vii) export assistance.

Direct inquiries to:
Department of Industry and Commerce
Government of Quebec
710 Place d'Youville
Québec (Québec)

5.6.10 **Saskatchewan**

1. **Saskatchewan Economic Development Corporation (SEDCO)**

Loans are made to industrial enterprises generally secured by way of mortgage on realty and chattels. There is no maximum or minimum loan. SEDCO may also build and lease industrial sites.

Direct inquiries to:
Saskatchewan Economic Development
Corporation
1106 Winnipeg Street
Regina, Saskatchewan

Section 6

# PROFILES OF THE CANADIAN VENTURE CAPITAL GROUPS

6.1 **A Word of Warning**

These profiles have been prepared from information supplied by each venture capital company. The views expressed are, therefore, not those of the authors. There is also no guarantee that the information is complete and accurate. Although every effort has been made to include in this section every venture capital group in Canada, there are undoubtedly other groups who did not make themselves known for publication purposes. Furthermore, statistical information becomes quickly outdated. The following profiles were prepared in June to September, 1976.

6.2 **Venture Capital Sources by Preferred Range of Investment**

These profiles have been prepared to assist those in need of financing by helping them to identify prospective suppliers of equity.

Every company mentioned in this profile suggests that written submission precede any request for a personal interview.

Those seeking funds should not make a blanket written submission to every company described herein. The approach should be selective. Entrepreneurs should identify those suppliers of equity who have expressed interest in their:

1. stage of development;
3. industry;
3. location;
4. size of financing required.

6.3 **Profiles of the Canadian Venture Capital Groups**

The profiles which follow are arranged alphabetically within the five geographic (west to east) headings:

British Columbia
Alberta
Ontario
Québec

The following table summarizes the preferred size of investment as indicated by the venture capital groups. Most of the firms will consider investments that are outside of their preferred range. The profile number is shown on the top right hand corner of the profile sheet.

| Preferred Range | Profile Number of Firms | | | | | | |
|---|---|---|---|---|---|---|---|
| $ -0- to $100,000 | 3 | 10 | 12 | 18 | 19 | 23 | 27 |
| | 28 | 30 | 36 | 37 | 38 | | |
| $100,000 to $250,000 | 2 | 3 | 4 | 5 | 6 | 7 | 9 |
| | 11 | 15 | 17 | 23 | 26 | 27 | 28 |
| | 30 | 35 | 37 | 43 | 44 | 45 | |
| $250,000 to $500,000 | 2 | 4 | 6 | 7 | 9 | 11 | 15 |
| | 16 | 17 | 20 | 21 | 26 | 27 | 28 |
| | 30 | 35 | 37 | 44 | 46 | | |
| $500,000 to $1,000,000 | 1 | 4 | 15 | 16 | 17 | 22 | 24 |
| | 25 | 26 | 27 | 28 | 41 | 42 | |
| $1,000,000 + | 1 | 17 | 22 | 24 | 25 | 26 | 31 |
| No preference indicated | 8 | 11 | 13 | 14 | 29 | 31 | 32 |
| | 33 | 34 | 40 | | | | |

BRITISH COLUMBIA

6.3.1 Athabasca Columbia Resources Ltd. — Direct Inquiry to: W. A. Dow, M. Cooke
603-1550 Alberni Street
Vancouver, British Columbia
V6G 1A5
Tel: (604) 682-3865 — Profile 1

**General Information**

Athabasca Columbia Resources Ltd. is a publicly held corporation which has been engaged in venture capital financing since 1965. The company has a full-time staff of five with access to a variety of specialists employed by subsidiary and associated companies. It is associated with a large number of private companies. Total assets per the most recent financial statements were $5,613,-600. At present there are investments in six different companies.

**Operational Approach**

At present, the greatest dollar value of funds is invested by way of convertible preferred shares. The company prefers investments in the $500,000 or greater range. However, minimum investments of $10,000 have been made. Maximum investment has been $2 million. Athabasca Columbia has been involved in syndicates. Divestiture usually takes place within three years. Ordinarily, a controlling interest is not taken. If it is, control may be earned back by performance to budget targets. Investments are made at the development stage. Representation on the board of directors is required. Control of the board of directors is not required.

**Venture Analysis**

Athabasca Columbia will accept middlemen and permit a percentage of the investment to be paid to them. The company expects the investee to have developed all of the skills necessary to run a business at the earliest stage of an investment. It is capable of supplying ongoing management and charges a fee for these services. Investments are monitored by way of financial statements, operating and management reports as well as meetings.

6.3.2 Bawlf Management Inc. — Direct Inquiry to: C. W. Bawlf
400-550 Burrard Street
Vancouver, British Columbia
V6C 2L6
Tel: (604) 669-7833 — Profile 2

**General Information**

Bawlf Management Inc. is a limited company having one shareholder and two people working full-time in the venture capital operation. The organization has been engaged in venture capital financing for one year.

**Operational Approach**

The company prefers to make investments in the range of $100,000 to $500,000. It has participated in syndicates. Divestiture is sought within five years. A controlling interest is ordinarily taken initially. It is possible to earn control back by performance to budget targets. The company invests in start-ups, developments, expan-

sions, turn-arounds and buy-outs. There is a strong preference for investment in communications and financial services. Bawlf Management Inc. prefers to invest in situations originating in British Columbia. Also, it would not be reluctant to invest in the Prairie Provinces. Control of the board of directors is sought.

**Venture Analysis**

The company is willing to deal with middlemen and pay them a percentage of the investment. It is expected that the applicant will have developed marketing and production planning at the earliest stage of an investment. The company is capable of providing partial ongoing management, for which a fee is charged. Investments are monitored by board participation.

6.3.3 Ventec Investments Ltd.
Board of Trade Tower
1177 West Hastings Street
Suite 2507
Vancouver, British Columbia

Direct Inquiry to:
H.A. Hoyle
D.H.J. Kay
B.M. Gillmore
H.W. Lee
Profile 3

**General Information**

Ventec Investments Ltd. was formed in May 1972. Ventec believes that companies in which it invests will benefit from its particular director/management team structure. Each Ventec director has developed and is currently active in managing his own successful enterprise. The company stresses the importance of effective management information and control systems and will provide necessary working capital if required for their implementation.

**Operational Approach**

The company is actively seeking portfolio investments in the $50,000 to $250,000 range. It is anticipated that most investments will be made by way of units of subordinated debt and common stock. Ventec is interested in high technology product or service firms including those operating in the fields of electrical, electronic and electro-mechanical manufacturing, pollution control devices, radio and television stations, and data equipment. There are certain industries in which Ventec would be reluctant to invest. These include: building materials, construction, development, food and beverages, forest products, natural resources and retailing. Ventec will invest anywhere in Canada but preference is given to situations arising in Western Canada, particularly when there are no other venture capitalists participating who geographically could more effectively monitor the investment. Ventec will normally require a seat on the board of directors, but would only seek control of the enterprise when an investment is grossly mismanaged or, for other reasons, involving severe jeopardy.

**Venture Analysis**

Ventec places emphasis on the abilities of the key man or team in the applicant's organization. He or they must be able to organize, develop and execute, either directly or through others, those financial, technical, marketing, manufacturing and other related skills which will enable both the applicant and Ventec to realize the return they expect. Ventec would participate actively in the management of the applicant's operation should the need arise and would expect to charge a fee for any such management services. Board representation, appraisal of monthly financial and management reports will form the basis of Ventec's investment review process.

6.3.4 Ventures West Capital Ltd.
2238-200 Granville Street
Vancouver, British Columbia
V6C 1S4
Tel: (604) 688-9495

Direct Inquiry to:
J. Haig deB. Farris
J.R. Jefferson
M.J. Brown
Profile 4

**General Information**

Ventures West Capital Ltd. is a limited company with 14 shareholders and five full-time people working in the venture capital operation. It has been a venture capital company for three and one-half years. The company currently has investments in eight different companies. Total assets per the most recent financial statement were $4.3 million.

**Operational Approach**

The company ordinarily initially takes a controlling interest which may be earned back by performance to budget targets. Investments in the $100,000 to $250,000 minimum range are preferred with the eventual minimum expected to be $500,000 within a few years. However, a minimum investment of $4,000 has been made. The company has participated in syndicates. At present the greatest dollar value of funds is invested by way of common stock. Ventures West will make an investment at any stage of the corporate life cycle, but prefers start-ups, development and expansion investments. Generally, divestiture occurs within five years. There is a preference for investment in natural resources with a secondary interest in indigenous potential such as transportation, manufacturing and communication. The company invests only in situations originating in Western and Northern Canada. A seat on the board of directors is requested. Control of the board is sought if the size of the investment warrants it.

**Venture Analysis**

In the case of natural resource investments, it is expected only that the company has done technical research. However, for industrial situations more thorough management development is required. Administrative assistance in the form of accounting expertise is supplied. In the case of syndicated natural resource arrangements, the company becomes involved in management. No real assistance is provided for manufacturing or service industry investments. Generally, a fee is charged for such services. Investments are monitored by regular financial reports and membership on the board of directors.

ALBERTA

6.3.5 Cavendish Investing Ltd.
2300 Three Calgary Place
355-4th Avenue Southwest
Calgary, Alberta
T2P 0J1
Tel: (403) 269-6795

Direct Inquiry to:
R.A.N. Bonnycastle
R. Lapointe
Profile 5

**General Information**

Cavendish Investing Ltd. is a privately held company which has been operating in the field of venture capital financing since 1967. The greatest dollar value of its invested funds is in common stock. Two of the company's more recent investments have been Renn Industries Inc., (distribution of form equipment) and Carson Luggage of Canada Limited (luggage manufacturers).

**Operational Approach**
Cavendish Investing Ltd. prefers investments in the $100,000 to $500,000 range in manufacturing, high technology and natural resource industries. Generally, the company will consider situations arising outside of Alberta with the exception of the Maritimes and Quebec. The company is reluctant to invest in the following areas: forest products, construction and real estate development. Although Cavendish prefers investing in development, expansion and turn-around situations, the company will consider start-ups and buy-outs. Cavendish requires one seat on the board of directors of companies in which it invests.

**Venture Analysis**
In addition to board representation and the usual financial statements, Cavendish prefers to monitor its investments by means of direct personal communication between R.A.N. Bonnycastle (Cavendish's president) and the entrepreneur. Cavendish Investing Ltd. will consider investment opportunities even if there has been insufficient planning of the financial, marketing and production aspects of the operation. In other words, the skills normally attributable to a complete management team may be attained subsequent to an investment by Cavendish. The company is not interested in supplying any required management skills itself except on a consultative basis.

6.3.6 Congress Resources Ltd.
2350-444 5th Avenue South West
Calgary, Alberta
T2P 2T8
Tel: (403) 263-6870

Direct Inquiry to:
D. G. Swan

Profile 6

**General Information:**
Congress Resources Ltd. is a limited company, having more than 20 shareholders and four people working full-time in the venture capital operation. The organization has been engaged in venture capital financing for one year. It is closely associated with Knowlton Realty Ltd. and SieMatic (Canada) Limited. At present there are investments in eight different companies.

**Operational Approach:**
The company prefers to make investments in the $100,000 to $500,000 range. The maximum investment made by Congress Resources is $2 million. The smallest investment is $70,000. Divestiture is sought from two to 20 years after investment. The company has been involved in syndicates. A controlling interest is usually taken. Congress Resources will make investments at the start-up stage of corporate growth. There is a strong preference for investment in construction and development, retailing and natural resource industries. The company is ordinarily reluctant to invest in a situation originating in the Maritimes. Operations exist in Quebec, Ontario, Alberta and British Columbia. Representation on the board of directors is required. Control of the board of directors is preferred.

**Venture Analysis:**
It is expected that investees will have developed production planning and complete technical research capabilities at the earliest stage of an investment. The company is capable of providing ongoing management. Investments are monitored by production, marketing and financial control.

6.3.7 Dynacorp Group Ltd.
508-5940 Macleod Trail Southeast
Calgary, Alberta
T2H 2G4
Tel: (403) 252-8162

Direct Inquiry to:
H.R. Shaw
L.A. Shaw
R.R. Martin
Profile 7

**General Information**
Dynacorp Group Ltd. is a limited company. There are three shareholders and a like number of people working full-time in the venture capital operation. The organization has been engaged in venture capital financing for three years. Total assets per the most recent financial statement were approximately $2 million. It currently has investments in five different companies.

**Operational Approach**
The company prefers to make investments that range from $100,000 to $500,000. Dynacorp is willing to syndicate. Dynacorp has the greatest dollar value of funds invested by way of common stock plus operating loans. Dynacorp will invest in expansions, turn-arounds and buy-outs. It is also interested in companies at the development stage. There is a strong preference to invest in wholesale, retail and recreation industries. There is a reluctance to invest in provinces other than the Prairies and British Columbia. Dynacorp ordinarily takes a controlling interest. Representation but not control on the board of directors is required.

**Venture Analysis**
Investees are obliged to live within approved operating budgets. It is expected that the investee will have developed marketing, production and technical research planning at the earliest stage of an investment. Dynacorp is capable of supplying management consulting on an ongoing basis. Investments are monitored by monthly financial statements, as well as monthly and annual forecasts.

ONTARIO

6.3.8 Amrose Ltd.
50 Bartor Road
Weston, Ontario
M9M 2G5
Tel: (416) 745-3333

Direct Inquiry to
B. D. Rose
F. E. Ross

Profile 8

**General Information**
Amrose Ltd. is a limited company. It has been engaged in venture capital financing for about ten years. There are six shareholders and five people working full-time in the venture capital operation. Amrose currently has investments in nine different companies.

**Operational Approach**
The company has participated in syndicates. Amrose has made investments in excess of $1 million. The company invests in start-ups, developments, expansions, turn-arounds and buy-outs. It has a strong preference for investment in manufacturing and industrial service industries. Investments may be made anywhere in Canada or the United States. The greatest dollar value of funds is invested by way of common stock or common stock and convertible debt. Representation on the board of directors is required. Amrose Ltd. ordinarily takes a controlling interest in the investee.

**Venture Analysis**
It is expected that the investee will have developed financial, marketing and production planning by the earliest stage of investment. Investments are monitored by comparing performance to business plan and by

ensuring proper cash flow control. Amrose is capable of providing operational management. Middlemen are welcome.

6.3.9 Anmercosa Ventures Limited
P.O. Box 28
Toronto Dominion Centre
Toronto, Ontario
M5K 1B8
Tel: (416) 362-2192

Direct Inquiry to:
A. B. Ormsby

Profile 9

**General Information**

Anmercosa Ventures Limited is a wholly owned subsidiary of Anglo American Corporation of Canada Limited. The company has one full-time staff member who manages total investments of $2.0 million. The company entered the venture capital financing field in 1968 and now holds a position in eight companies.

**Operational Approach**

Present emphasis is on investments in natural resources and natural resource-related areas. The company is reluctant to consider investments in construction and development, forest products, manufacturing, wholesaling, retailing and high technology. The one exception to the last-mentioned area is the natural resource-related technological area. Although past commitments to any one situation have ranged from $50,000 to $450,000, the present minimum initial investment is $150,000 with additional commitments to be based on the viability of the situation. Company funds are mainly invested in equity. However, debt instruments are also acceptable as well as combinations of equity and debt. The company prefers to invest in Ontario, but will consider situations originating in the Prairies, British Columbia and Quebec. Ordinarily, controlling interest is not desired and, although board representation is required, the company does not wish to control the board.

**Venture Analysis**

The company has some definite views on how an investment should be monitored and safeguarded. Monthly financial statements must be provided and cash disbursements are strictly controlled (with some relaxation allowed once a company has reached a cash break-even operating position). In addition, senior management is required to sign noncompetition employment contracts. While Anmercosa Ventures Limited is an active investor, the applicant is expected to be capable of managing its day-to-day operations. Anmercosa will assist in the procurement of new or replacement management and in the formulation of corporate goals and policies. Financial guidance is provided but the applicant should be able to formulate a good business plan and have an adequate management team relative to its stage of development.

6.3.10 Batler-Daniels Ltd.
1661 Finfar Court
Mississauga, Ontario
L5J 4K1
Tel: (416) 823-6150

Direct Inquiry to:
B. Batler

Profile 10

**General Information**

Batler-Daniels Ltd. is a limited company having two shareholders and one full-time person working in the venture capital operation. The organization has been engaged in venture capital financing for two years. At present there are investments in eight companies.

**Operational Approach**

The company has invested a maximum of $90,000 in one deal. It has not been involved in syndicates, though it is willing to be. Divestiture usually takes place within five years. While representation on the board of directors is required, control is not sought. The company has no fixed policy with respect to taking a controlling interest in the applicant company. At present, the greatest dollar value of funds is invested by way of debentures plus common stock. Batler-Daniels has invested in start-ups, turn-arounds and buy-outs. There is a strong preference for investments in communication, financial services and general high technology. The company is reluctant to invest in a situation originating in British Columbia.

**Venture Analysis**

The company is prepared to deal with middlemen and will permit a percentage of the investment to be paid out to them. Ongoing management can be supplied for a fee. Investments are monitored by close contact with top management. It is expected that the applicant company will have already undertaken financial planning and will possess a complete management team at the earliest stage of investment.

6.3.11 Boyd, Stott & McDonald Limited
P.O. Box 62
One First Canadian Place
Toronto, Ontario
M5X 1B1
Tel: (416) 364-3767

Direct Inquiry to:
D. Roffey

Profile 11

**General Information**

Boyd, Stott & McDonald Limited, a limited company, has engaged in a variety of venture capital financing activities over the past years.

**Operational Approach**

Boyd, Stott & McDonald Limited will consider many types of businesses for investment. The company does not place any geographical restrictions on situations in which it invests. Emphasis is placed on the establishment of new companies, primarily those engaged in basic systems, technology or (financial) mechanisms, as distinct from consumer products or service businesses. In the past, the company has made use of the full spectrum of investment instruments attempting to tailor the financial package to the unique characteristics of each situation.

6.3.12 CGI & Third Venture Capital Limited
110 Yonge Street
Suite 1702
Toronto, Ontario
M5C 1T4
Tel: (416) 366-2931

Direct Inquiry to:
P.O.G. Wright

Profile 12

**General Information**

CGI & Third Venture Capital Limited is a limited corporation 90 per cent owned by Canadian General Investments Limited. The company has assets of approximately $1 million with the largest portion of its invested funds in the common stock of companies in high technology industries.

**Operational Approach**

CGI & Third Venture Capital Limited is interested in investing at all stages of the corporate life cycle. However, the company prefers not to invest in a buy-out situation. Although investments as large as $110,000

have been made, preference is given to opportunities in the $25,000 to $50,000 range. Investments are not restricted geographically. The company does not take a controlling interest nor does it require board of director representation.

**Venture Analysis**
CGI & Third Venture Capital Limited requires that an applicant demonstrate definite planning skills in the areas of finance, marketing and production. The applicant must have completed any technical research required in respect of his promising product or new service. The company does not normally supply ongoing management to the companies in which it invests. Therefore, although managerial assistance is available to a limited extent, the onus is upon the entrepreneur to develop his own management team. Investments are monitored by personal contact with management and analysis of interim and annual reports.

6.3.13 Canada Overseas Investments Limited
Suite 2901
Royal Bank Plaza
South Tower
Toronto, Ontario
M5J 2J2
Tel: (416) 865-0266

Direct Inquiry to:
Mickael M. Koerner

Profile 13

**General Information**
Privately held Canada Overseas Investments Limited has been operating in the field of venture capital financing since 1959. The company has made investments from $25,000 to $1 million and has initiated and participated in syndications in the past. It ordinarily prefers investment opportunities of $50,000 or more.

**Operational Approach**
Canada Overseas Investments Limited uses common stock as its principal instrument of investment. The company will supply capital required to develop the "promising" idea to the prototype stage or assist the entrepreneur in defining his market. In addition, the company will finance applicants in the start-up and development stages of corporate growth. The company shows no strong preferences for any type of business venture nor does it place any geographical restrictions on the origins of the venture. Ordinarily, representation on the board of directors is required.

**Venture Analysis**
Canada Overseas Investments Limited takes a generally negative attitude towards brokers and middlemen. The company is not capable of supplying ongoing management and it is therefore advisable to have a credible management team. The investments are monitored by board participation and by direct and continuing contact with management.

6.3.14 Canadian Corporate Management Company Limited
P.O. Box 131
Commerce Court West
Suite 2080
Commerce Court Postal Station
Toronto, Ontario
M5L 1E6
Tel: (416) 868-0590

Direct Inquiry to:
J. B. Clarke

Profile 14

**General Information**
Canadian Corporate Management Company Limited is a publicly held (Toronto Stock Exchange) holding and operating company. It has invested in a variety of companies including The Canadian Chromalox Company, The Larkin Lumber Company Limited, Jelinek Sports Limited and Thermetic Controls Limited. One member of the Canadian Corporate Management staff has full-time responsibility in the area of venture capital financing. The company has total assets of approximately $130 million.

**Operational Approach**
Its portfolio of investments is primarily in common stock/loan combinations. Canadian Corporate Management prefers to invest in situations arising in high technology, manufacturing (durable and nondurable, consumer and industrial) and recreation and leisure industries. The company will consider opportunities arising anywhere in Canada but is reluctant to invest in the following industries: chemicals, construction, forest products, natural resources and transportation. Canadian Corporate Management is flexible on the range of investments that it will make. Depending on the stage of corporate development and the risk attached to the specific situation, the investment would normally range from $50,000 to $1 million. Proposals greater or smaller than this range will be considered. Canadian Corporate Management may or may not take control initially but, regardless of the extent of the company's position, board of director control is required. The company has invested in a buy-out in the past but, as it prefers to have the present owners maintain some equity position, buy-outs constitute one stage of the corporate life cycle which does not generally interest the company.

**Venture Analysis**
Canadian Corporate Management feels that there are certain primary requirements to be met by the applicant. Technical research, if applicable, must have been completed and the existence of adequate financial and market planning must be demonstrable. As Canadian Corporate Management is capable of supplying ongoing management to companies in which it invests, the lack of a complete management team is not necessarily a hindrance. The company monitors its investments by means of monthly meetings, monthly financial statements and management reports and by comparison of actual results achieved against annual budgets.

6.3.15 Canadian Venture Capital Corporation (1974) Limited
120 Adelaide Street West
Suite 1120
Toronto, Ontario
M5H 1V1
Tel: (416) 364-2271

Direct Inquiry to:
H. G. Mortimore
N. G. Van Nest

Profile 15

**General Information**
Canadian Venture Capital Corporation (1974) Limited is a limited corporation which has been engaged in venture capital financing for two years. There are ten shareholders and two full-time people working in the venture capital operation. The company is closely associated with United Dominions Corporation and Triarch Corporation Limited. At present there are investments in eight different companies. Total assets as at the most recent financial statement were $4.55 million.

**Operational Approach**
Investments usually range between $200,000 and $750,000. The company has initiated and participated

in syndicates. The greatest dollar value of funds is invested by way of debentures plus common stock and convertible debentures. Divestiture usually takes place within four to six years. Investments are made for developments, expansions, turn-arounds and buy-outs. The company prefers to invest in natural resources, manufacturing and recreation industries. There is a reluctance to invest in construction and development, financial service and general high technology. CVCC will invest anywhere in Canada and is willing to deal with middlemen. A controlling interest in the investee is not normally obtained. Representation but not control on the board of directors is required.

**Venture Analysis**

It is expected that the company will have developed a complete management team in the earliest stage of investment. Usually CVCC requires prior written consent for major capital outlays. Active participation in the business by the board of directors is also required. Investments are monitored by frequent communication and monthly financial reports.

6.3.16 Charterhouse Canada Limited — Direct Inquiry to: D. Clarke

Montreal Trust Building
11 King Street West
Suite 1310
Toronto, Ontario
M5H 1A3
Tel: (416) 362-7791 — Profile 16

**General Information**

Charterhouse Canada Limited is a subsidiary of British-based Charterhouse Group Limited. Charterhouse at present has investments in more than 30 companies including: Canadian Foremost Industries, International Systcoms Ltd., Energy Sciences Inc., Kingston Spinners, Taiga Resources and Incoterm Corp.

**Operational Approach**

Charterhouse will invest in situations arising anywhere in Canada. Generally, a proposal from any established commercial or manufacturing enterprise would be considered. However, the company is reluctant to invest in construction and extractive industries. Investments in the $250,000 to $750,000 range are preferred. Charterhouse anticipates turning over an investment from five to seven years after acquisition. The company invests in all stages of corporate growth. It will not finance a situation where technical research has not been completed. The company requires one seat on the board of directors. It is not Charterhouse policy to seek voting control. Charterhouse will acquire a minority interest in the common share capital. A part of each investment is likely to be in the form of preferred shares, notes or debentures redeemable on an agreed plan over a number of years.

**Venture Analysis**

Charterhouse does not provide ongoing management. The applicant should have a complete management team. Charterhouse Canada Limited, aware that the entrepreneur would not be approaching it if his financial arrangements were settled, does not expect the applicant to have completed his financial planning prior to his initial meeting with the company. Skills in the area of marketing and production planning should be evident from an initial review of the applicant's situation. Following approval of a proposal by the Charterhouse board, it is usual practice to institute a legal and audit check of those matters which have formed the basis of the board's decision.

6.3.17 Commonwealth Development Finance Company Limited — Direct Inquiry to: P. J. Dale

18 King Street East
Suite 200
Toronto, Ontario
M5C 1C4
Tel: (416) 863-1932

Cole Church House
1 London Bridge Walk
London, England
SE1 2SS
Tel: (01) 407-9711 — Profile 17

**General Information**

CDFC Limited is owned by approximately 180 shareholders, including the Bank of England. It has been investing in Canada since 1958. The company operates with a staff of 60 based in London, England. It is an investor in Canadian Enterprise Development Corp., and SB Capital Corp. Total Canadian assets are $4 million. The company currently has investments in six Canadian companies.

**Operational Approach**

The company has previously initiated and participated in syndicates. Preferred investments are in the $600,000 to $2 million range. CDFC has the greatest dollar value of funds invested by way of debentures plus common stock. Divestiture usually takes place within five to seven years. The company will invest in developments, expansions and buy-outs. CDFC prefers to invest in the Maritimes and Ontario, but will go to other provinces only as part of a syndicate because of practical limitations. Representation on the board of directors is required. A significant minority interest is sought.

**Venture Analysis**

It is expected that investees will have developed a complete management team at the earliest stage of investment by the company. Investments are monitored by regular reports and visits. Borrowing restrictions and performance obligations are usually required.

6.3.18 Core Services Ltd. — Direct Inquiry to: H. L. Black

P.O. Box 733, Station "B"
Ottawa, Ontario
K1P 5P8
Tel: (613) 233-9473 — Profile 18

**General Information**

Core Services Ltd. is a limited company. It has been engaged in venture capital financing for four years. There are nine shareholders. Total assets per the most recent financial statement were $4,425,738. At present there are investments in seven different industries.

**Operational Approach**

The company prefers to make investments in the range of $20,000 to $50,000 although it has made a minimum investment of $2,500 and a maximum of $500,000. The company has initiated and participated in syndicates. The company invests mostly by way of common stock, convertible debentures and mortgages. It will invest in developments, expansions, buy-outs and turn-arounds. There is a preference for investment in communications, educational product services and financial services. The company prefers to invest in Ontario and

Quebec. Divestiture usually takes place within two to five years. The company does not always request representation on the board of directors. Core Services does not always take a controlling interest. If it does control it may be earned back by performance.

**Venture Analysis**
Investments are monitored by the terms of the management and service contract and through voting power.

6.3.19 Empirical Enterprises Limited — Direct Inquiry to: J. Gorham
P.O. Box 515, Station "F"
Toronto, Ontario
M4T 2L8
Tel: (416) 924-9171 — Profile 19

**General Information**
Empirical Enterprises Limited is a limited company having one shareholder and one person working full-time in the venture capital operation. The organization has been engaged in venture capital financing for four years. At present, there are investments in three different companies.

**Operational Approach**
The company prefers to make investments in the range of $10,000 in cash to $50,000 in services. However, minimum investments of $5,000 in services have been undertaken. A controlling interest is initially taken. It may be earned back by performance to budget targets. Divestiture is sought within four to five years. The company has been involved in syndicates. The greatest dollar value of funds is invested by way of common stock. The company will invest at any stage of corporate growth. There is a strong preference for investment in communications, food and beverage and consumer services industries. Ordinarily, Empirical Enterprises Limited prefers to invest in situations originating in Ontario. Control of the board of directors is required.

**Venture Analysis**
It is expected that the investee have some financial planning at the earliest stage of an investment. The company is capable of providing ongoing management to companies in which it invests. A fee is charged. Investments are initially monitored through the ongoing management role. After that, monthly reports are compared with targets.

6.3.20 Helix Investments Limited — Direct Inquiry to: D. C. Webster, D. A. Bennett, K. W. Soehner
401 Bay Street
Suite 2400
Toronto, Ontario
M5H 2Y4
Tel: (416) 367-1290 — Profile 20

**General Information**
Helix Investments Limited was formed in 1968 and is a privately held Canadian venture capital company with paid in capital of $13 million placed primarily in the common stock of 25 companies. D. C. Webster, President, is the company's largest shareholder.

**Operational Approach**
Helix Investments Limited has a broad investment interest. Successful investments have been made in shipping containers, computer terminals, electronics, telephone interconnect equipment, medical and hospital services, pharmaceuticals, veterinary drugs, industrial goods distribution, tire distribution, direct mail services, coal properties and in real estate development. Helix will consider opportunities originating anywhere in Canada. Although investments will usually fall into the $250,000 to $500,000 range, the company has made investments ranging from $5,000 to $3 million. Helix takes a major investment position (though not necessarily control) with a view to holding the investment for the long term. Emphasis is placed on opportunities arising in the earlier stages of corporate growth but the company will consider turn-around and buy-out situations.

**Venture Analysis**
Helix Investments Limited places great importance on the capabilities and experience of the management team and the size of the opportunity afforded by the proposal. Helix will help fill gaps in the management team through its access to a variety of management personnel from previous associations. In monitoring its investments, Helix maintains regular communication with the top management of its investments.

6.3.21 Inco Ltd. — Direct Inquiry to: D.D. Adams
P.O. Box 44
One First Canadian Place
Toronto, Ontario
M5X 1C4
Tel: (416) 361-7511 — Profile 21

One New York Plaza
New York, N.Y. 10004
Tel: (212) 742-4278

**General Information**
The venture capital operation is a division of Inco Ltd. There is one person working full-time and several working part-time in the venture capital operation. The division has been engaged in venture capital financing for about one year. At present there are investments in nine different companies. Total assets per the most recent financial statements were $3,500,000.

**Operational Approach**
There is a preference for investments in the $500,000 range. The largest investment is $850,000. The smallest has been $80,000. The company is willing to syndicate. Divestiture is typically sought within five to eight years. Ordinarily a controlling interest is not taken, but each case is considered individually. At present, the greatest dollar value of funds is invested by way of common stock. The company will make an investment at any stage of corporate growth. There is a strong preference for investments in general high technology, industrial services and supplies, as well as medical products and services. The company is not reluctant to invest in any province. Generally, representation on the board of directors is requested. Control of the board of directors is not required.

**Venture Analysis**
The company believes that middlemen could be used and compensated in appropriate circumstances. It is expected that the investee will have developed financial, marketing and production planning at the earliest stage of an investment. Ongoing management is not supplied but a wide range of technical, financial, marketing, and management services may be provided to the investee. Generally, a fee is not charged for consulting services but this depends upon the extent and value of services provided. Investments are monitored through board representation, frequent management information and other reports as well as contact with management.

6.3.22 Indal Limited
4000 Weston Road
Weston, Ontario
M9L 2W8
Tel: (416) 743-1400

Direct Inquiry to:
D.G. Coughlan
J.N. LeHeup

Profile 22

**General Information**

Indal Limited is a limited company having approximately 1,200 shareholders and 24 people working full-time in the venture capital operation. The organization has been engaged in venture capital financing for 11 years. It is associated with Rio Tinto-Zinc Corporation of London, England. Total assets per the most recent financial statements were $112,762,000. At present, there are investments in 35 different companies or divisions.

**Operational Approach**

Indal Limited prefers investments in the range of $500,000 to $5 million, although minimum investments of $74,000 have been made. The company does not have a time range within which it typically divests. Sales are extremely rare. Ordinarily, a controlling interest is taken with an option to increase it to 100 per cent. The greatest dollar value of funds is invested by way of common stock. Investments will be made in starts-ups, developments and expansions. There is a strong preference for investment in construction materials as well as industrial and consumer durable manufacturing. The company is prepared to invest anywhere in Canada. Control of the board of directors is required.

**Venture Analysis**

The investee is expected to have developed marketing and production planning as well as complete technical research and a complete management team at the earliest stage of an investment. Investments are monitored by comparing results to budget targets. Emphasis is placed on granting large degree of operating autonomy with entrepreneurial-oriented management.

6.3.23 Industrial Hydrocarbons Limited
P.O Box 908
1312 Speers Road
Oakville, Ontario
L6L 2X4
Tel: (416) 827-5591

Direct Inquiry to:
R. E. Irwin

Profile 23

**General Information**

Industrial Hydrocarbons Limited is a private company engaged in developing processes for its own use, or for licensing to others after successful development on a pilot plant scale. The company has operated on this basis for 20 years. The company has and will examine innovation in processes and equipment in which it may become interested. Industrial Hydrocarbons may proceed with examination in its pilot plant for further application but does not operate on a consulting or fee for service basis. The company is prepared to make investments where innovation appears to be suitable for industry.

**Operational Approach**

Investments by Industrial Hydrocarbons are preferred in the range of $10,000 to $200,000. Usually Industrial Hydrocarbons does not participate as part of a syndicate, but will operate as part owner under favourable conditions. Participation in a venture may be by debentures combined with common stock. Usually the company has invested before commercial operation when participating in new developments. The usual period for a development has been six years in proving a satisfactory financial basis. There is a preference for investment in advanced chemical and petroleum technology but innovative mechanical developments are of interest. The company is interested within its field in developments in any part of Canada. Industrial Hydrocarbons ordinarily requires a controlling interest in a development company, with suitable executive control and director representation. Requests for consideration should be submitted in writing.

**Venture Analysis**

It is expected that any company with whom Industrial Hydrocarbons Limited could participate will have advanced technical research before investments are considered. Any investments are monitored by frequent investigation, visits, and required reports.

6.3.24 Maplebrook Investments Limited
Commercial Union Tower
Suite 2818
P.O. Box 288
Toronto Dominion Centre
Toronto, Ontario
M5K 1K2
Tel: (416) 868-0645

Direct Inquiry to:
P. J. M. Bloemen
J. E. Sands

Profile 24

**General Information**

Maplebrook Investments Limited is a family held Canadian investment company. The company was established in 1975 to engage in direct investments.

**Operational Approach**

The venture capital division of Maplebrook Investments Limited will consider all types of businesses for investment. No restrictions are placed on the location of the enterprise. A controlling interest is not sought but the company does expect to maintain close contact by means of board representation, periodic reports and personal visits. Maplebrook Investments Limited is a long-term investor and, as such, dictates no time range for sale or minimum annual rate of return. The company's investment instrument has generally been common stock. The only restrictions placed on the companies in which it invests are normal protections for minority investors as conditioned in shareholders' agreements. Maplebrook participates in ventures with other venture capital groups. The preferred size of its investments ranges from $500,000 upwards. Maplebrook will not usually participate in an investment at the start-up or early stages of development. Maplebrook concentrates on expansions, turn-arounds and partial buy-outs.

**Venture Analysis**

Since the company has no management capabilities, a strong management team should be in place. The service of brokers, middlemen, etc., are appreciated but are normally taken care of by the receivers of the funds invested.

6.3.25 McConnell & Company Limited
8 King Street East
Suite 1910
Toronto, Ontario
M5C 1B5
Tel: (416) 364-4461

Direct Inquiry to:
F. E. McConnell

Profile 25

**General Information**

McConnell & Company Limited is a Toronto-based broker and investment dealer. A department of the firm directs the venture capital activities. McConnell &

Company has been involved in the field for the past 15 years. Two recent financings are: Paramount Leasing Ltd. and Henninger Malting (Saskatchewan) Ltd. This latter investments is McConnell & Company's largest venture capital financing to date, representing a total of approximately $15 million by way of a combination of instruments. McConnell & Company feels that its most successful original financing was made in the field of financial services—The Metropolitan Trust Company.

**Operational Approach**
McConnell & Company Limited will consider situations at all stages of corporate growth originating anywhere in Canada. Preference will be given to investments in the $500,000 to $5 million range. The company would be reluctant to arrange investment in consumer services, general high technology, retailing and wholesaling situations. McConnell & Company has used the full spectrum of financing vehicles. Representative of this would be the Henninger Brewery deal which included bonds with warrants, convertible preferred, preferred and common stock. The company is interested in participating in syndicates with other venture capitalists. McConnell & Company has no set rules insofar as liquidating its client position of a portfolio company.

**Venture Analysis**
McConnell & Company Limited will participate in the development of a company's planning in the areas of finance, marketing and production. In addition, the company has, on occasion, taken responsibility for finding management. Investments are monitored by means of board of director membership and by direct contact with management, as required.

6.3.26 Merit Investment Corporation — Direct Inquiry to: J. R. Woods
401 Bay Street
Suite 2205
Toronto, Ontario
M5H 2Z5
Tel: (416) 867-6000 — Profile 26

**General Information**
Merit Investment Corporation is a syndicator. Many proposals are considered during the course of the year and, from time to time, the company becomes involved in raising capital through either the public or private sector.

**Operational Approach**
The clients of Merit Investment Corporation are interested in examining proposals in amounts from $250,000 upwards. The company does not confine itself to any particular area of endeavour, but would prefer special situations even at the conceptual stage.

6.3.27 Roymark Financial Services Limited — Direct Inquiry to: W. A. Clarke, B. D. Marshall
11 King Street West
Suite 1402
Toronto, Ontario
M5H 1A3
Tel: (416) 862-1252 — Profile 27

**General Information**
Roymark Financial Services Limited is a private corporation. It has been engaged in venture capital financing for two years. There are two shareholders in the company, Royal Bank of Canada and Roymark & Associates. Two people work full-time in the venture capital operation. At present, there are investments in six different companies.

**Operational Approach**
Investments range from $100,000 to $1 million. Roymark has initiated and participated in syndicates. The greatest dollar value of funds is invested by way of debentures and common stock. Divestiture takes place within five to ten years. Roymark will invest in start-ups, developments, expansions, turn-arounds and buy-outs. Strong preference is shown for natural resource and manufacturing industries. There is a reluctance to invest in construction and development, consumer services and industrial services. The company will invest anywhere in Canada. While it prefers not to do so, the company will work with middlemen. Roymark requires representation but not control on the board of directors. A controlling interest is not normally taken.

**Venture Analysis**
It is expected that an applicant company will have developed production and marketing planning by the time the investment is made. Restrictions are usually placed on salaries, working capital, debt/equity ratio and capital expenditures (if appropriate). Investments are monitored by board and executive committee representation and by ongoing consulting assignments. Roymark has a consulting capability, for which it charges a fee.

6.3.28 SB Capital Corporation Limited — Direct Inquiry to: A. George Fells, Mitch J. Kostuch
18 King Street East
Suite 200
Toronto, Ontario
M5C 1C4
Tel: (416) 863-1889 — Profile 28

**General Information**
SB Capital Corporation Limited is a private company which has been engaged in venture capital financing for three years. There are six shareholders. Three people work full-time in the operation. Investments are usually in the range of $50,000-$200,000. The company has initiated and participated in syndicates. Total assets per the most recent financial statement were $1 million.

**Operational Approach**
The company will invest at any stage of a company's growth. At present most investment is by way of debenture plus common stock. There are currently investments in four companies. SB is willing to invest anywhere in Canada. It is reluctant to invest in the construction and development industry. Generally, divestiture will take place within seven to ten years. General managerial and specific expertise can be supplied. The company is willing to accept middlemen.

**Venture Analysis**
It is expected that a company will have developed a complete management team and marketing planning at the earliest stage of an investment. Usually SB does not take a controlling interest. It usually requires representation but not control on the board of directors. The company monitors its investment through board of directors and shareholders' meetings, regular unaudited statements, annual reports and cash flow projections.

6.3.29 Sharwood and Company — Direct Inquiry to: G. R. Sharwood
20 Victoria Street
Toronto, Ontario
M5C 1X1
Tel: (416) 869-1598 — Profile 29

**General Information**
This sole proprietorship is in its first year of operation. There is one shareholder and one person working part-time in the venture capital operation. At present there are investments in three companies.

**Operational Approach**
This organization is willing to syndicate. Divestiture usually occurs within five years. Ordinarily, a controlling interest is taken. It may be earned back by performance to budget targets. The greatest dollar value of funds is invested by way of common stock. The company is willing to invest at all stages of corporate growth. There is a strong reluctance to invest in recreation and leisure industries. Sharwood and Company is prepared to invest anywhere in Canada. Representation on the board of directors is required. Control of the board of directors is not required.

**Venture Analysis**
The company expects that a company will have developed marketing planning at the earliest stage of an investment. Sharwood and Company is capable of funding ongoing management for such companies. A fee is charged for its consulting services. Investments are monitored by means of monthly reports as well as board of directors representation.

6.3.30 TD Capital Group — Direct Inquiry to:
P.O. Box 1 — Ms. E.A. Koruna
Toronto Dominion Centre — Portfolio Manager
Toronto, Ontario — Mr. R.E. Storie
M5K 1A2 — Portfolio Manager
Profile 30

**General Information**
TD Capital Group was formed by Toronto-Dominion Bank to provide financing directly or in partnership with other venture capital groups, to small businesses whose capital needs cannot be met by the Bank's normal lending practices.

**Operational Approach**
The majority of investment commitments fall in the $50,000 to $500,000 range but larger amounts will be considered. TDCG, through its extensive contacts, is well placed to put together a consortium or group of investors for larger placements. TDCG investment emphasis is on small enterprises, which have evolved beyond the start-up phase possessing unusually promising growth prospects, but which do not have the resources or security required for normal bank loans nor the earnings record to seek public financing. Investments by TDCG can be in a variety of forms, tailored to the specific requirements of the company. Generally, they will be interest-bearing and have an equity participation, e.g. convertible debt or preferred stock or notes with warrants to purchase stock rather than straight debt or common equity. TDCG will give preference to investments located in Canada or that can create external demand for Canadian goods and services. It will not limit its investment to any one type of industry or to companies at any particular stage of development.

**Venture Analysis**
TDCG will require that management be competent and have a proven track record in its proposed operation or in a related industry. In addition, TDCG will seek investments where companies exhibit above average profit growth potential through either a proprietary advantage, or secure marketing position.

6.3.31 Triarch Corporation Limited — Direct Inquiry to:
120 Adelaide Street West — H.G. Mortimore
Suite 1120 — N.G. Van Nest
Toronto, Ontario
M5H 1V1
Tel: (416) 364-2271 — Profile 31

**General Information**
The company is the merchant banking affiliate of Brascan Limited. Triarch's venture capital activities are conducted through Canadian Venture Capital Corporation (1974) Limited (CVCC). It is the manager and a shareholder in CVCC. For further information see the CVCC profile.

6.3.32 United Dominions Corporation (Canada) Limited — Direct Inquiry to:
2 Bloor Street West — H. D. Hope
Toronto, Ontario
M4W 1A1
Tel: (416) 967-3939 — Profile 32

**General Information**
United Dominions Corporation (Canada) Limited is owned by United Dominions Trust Limited of Britain (51 per cent) and the Canadian Imperial Bank of Commerce (49 per cent). The company's primary activity is commercial financing and term loans provided via branches throughout Canada. It participates in venture capital financing through its interest (23 per cent) in Canadian Venture Capital (1974) Limited (CVCC).

All inquiries received are referred to CVCC. For further information, see the CVCC profile.

6.3.33 Venturetek International Limited — Direct Inquiry to:
47 Colborne Street — D. E. Loeb
Suite 404 — G. L. Strickler
Toronto, Ontario
M5E 1E3
Tel: (416) 363-9205 — Profile 33

**General Information**
Venturetek International Limited is owned by about 100 shareholders including the Canada Development Corporation, Excelsior Life Insurance Company, National Life Assurance Company of Canada, Manufacturers Life Insurance Company and Canada Permanent Trust Company. It has been engaged in venture capital financing for three years and operates with a staff of 13 people. Total assets on its most recent financial statements were in excess of $57 million.

**Operational Approach**
Venturetek International Limited's usual form of investment includes common stock and debentures. Venturetek is interested in participation with other financial groups in syndicated deals. Preference is shown for high technology situations where a great deal of marketing input is required. There is no restriction as to the location of the entrepreneur. The company is interested in investing in the initial stages of development up to the expansion stage of a well established company. It has invested in a turn-around situation, but will be highly selective in this category in future. Venturetek seeks to take a controlling interest in situations in which it invests. The company is looking for situations having the potential to yield an outstanding rate

of return on shareholder's equity and preferably seeks to liquidate its position within five to seven years after investment. The minimum investment which the company now wishes to make is $200,000 although its investments have ranged from $16,000 to $2.5 million.

**Venture Analysis**

Venturetek International Limited will restrict itself to a small number of companies and requires both uniqueness in product and the existence of major (i.e. international) market potential. The company will monitor its investments by control of the entrepreneur's board of directors, representation on the executive committee and by active participation in management. In addition, the company likes to receive all the normal reports in connection with the operations of the enterprise. It is not usually receptive to participation by middlemen, brokers, etc.

QUEBEC

6.3.34 Bolex Consulting Ltd. — Direct Inquiry to: A. C. Boland

147 Hymus Boulevard
Pointe Claire, Quebec
H9R 1G1
Tel: (514) 697-2962 — Profile 34

**General Information**

Bolex Consulting Ltd. is a limited company having four individual shareholders and three people working full-time in the venture capital operation. The organization has been engaged in venture capital financing for about seven years. During the first five and one-half years all investments were made by Mr. Boland as an individual, but over the past one and one-half years all investments have been channelled through Bolex. At present there are investments in nine different companies.

**Operational Approach**

The greatest dollar value of funds is invested by way of redeemable preference shares and convertible debentures. The largest investment by Mr. Boland and/or Bolex has been $600,000. The smallest is $7,000. Bolex Consulting has initiated and participated in syndicates. There is no set time limit for divestiture; it depends on the cash flows of the investment. In conjunction with other investors, a controlling interest is ordinarily taken. It may not be earned back by performance to budget targets. The company will invest in expansions, turn-arounds and buy-outs. There is a strong preference for investment in chemicals, communications and natural resources. Geographically, the company prefers to invest in Ontario, Quebec and Alberta. Representation on the board of directors is required. Control of the board of directors is not always sought.

**Venture Analysis**

It is expected that the applicant company will have developed marketing and production planning, as well as complete technical research at the earliest stage of an investment. The company is capable of supplying ongoing financial planning and overall organization structure to companies in which it invests. A fee is charged for consulting services. In order to monitor its investment, Bolex requires the chief financial officer to report to A. C. Boland at least twice a year. Similarly, the President usually reports to the Chairman of the Board who is usually a member of the syndicate.

6.3.35 Canadian Enterprise Development Corporation Limited — Direct Inquiry to: G. Sutton—Toronto, D. Mather—Montreal, R. Chefets—Toronto, R. Burke—Vancouver

965 Sun Life Building
Montreal, Quebec
H3B 2W6
Tel: (514) 878-2764

3704 Royal Trust Tower
Toronto, Ontario
M5K 1G8
Tel: (146) 366-7607

1111 West Hastings Street
Vancouver, British Columbia
V6E 2J3
Tel: (604) 684-3271 — Profile 35

**General Information**

CED is a limited corporation with 27 institutional shareholders and five investment officers working full-time in venture capital. It has been engaged in venture capital financing for 14 years. CED is associated with a number of life insurance companies, banks and other institutions in Canada and overseas. It is Canadian controlled. Total assets per the most recent financial statement were $13.4 million.

**Operational Approach**

The company prefers to make initial investments in the range of $100,000 to $500,000. CED has initiated and participated in syndicates. CED has the greatest value of funds invested by way of common stock. It will invest at any stage of a company's growth. At present, CED has investments in 22 different companies. There is a strong reluctance to invest in construction and real estate development. CED is willing to invest anywhere in Canada. It will deal with middlemen. CED does not ordinarily take a controlling interest in the investee. One or more seats on the board of directors is required, but not control.

**Venture Analysis**

Investments are monitored through board representation. In new venture analysis the quality of management is the key factor.

6.3.36 Commanik Ltd. — Direct Inquiry to: J. C. Dubé

P.O. Box 1471, Station "B"
Hull, Quebec
Tel: (613) 233-1827 — Profile 36

**General Information**

Commanik Ltd. is a limited company, having nine shareholders and one person engaged full-time in the venture capital operation. The company has been engaged in venture capital financing for one year. Total assets per the most recent financial statement were $972,000. There are currently investments in six different companies.

**Operational Approach**

Preference is given to investments in the $10,000 to $50,000 range. However, minimum investments of $2,500 and maximum investments of $250,000 have been made. The company is willing to become involved in syndicates. The greatest dollar value of funds is invested by way of convertible debentures and convertible preferred shares. Commanik will invest in a company at any stage of growth except turn-arounds. Divestiture usually takes place within five to six years. The company ordinarily initially takes a controlling interest, but it may be earned back by performance to budget targets. Representation on the board of directors is requested, especially in the case of small invest-

ments or weakly managed situations. Whether or not control of the board is required depends on management and experience of the investee. Commanik will invest only in Ontario and Quebec. Strong preference is given to investments in the areas of financial services, real estate and communications.

**Venture Analysis**
Commanik Ltd. is already acting in conformity with the provisions of the proposed Ontario and Quebec VIC legislation. It is expected that a company will have developed a complete management team at the earliest stage of an investment. Commanik Ltd. is able to supply management experts for a fee. Investments are monitored by consultation, representation in management and on the board of directors and through financial, technical and inventory reports.

6.3.37 Consortium Investment Corporation — Direct Inquiry to: M.L. Lippman
Suite 208
6600 Côte des Neiges Road
Montreal, Quebec
H3S 2A9
Tel: (514) 341-5511 — Profile 37

**General Information**
Consortium Investment Corporation is a limited company with the equity held by a number of shareholders. It has been in operation since 1967 and functions with a staff of two. Most of the investing has been by way of debentures plus common stock.

**Operational Approach**
There are no set restrictions placed on selected enterprises. Investment has ranged from $20,000 to $300,-000 and preference lies in the $25,000 to $500,000 range. Consideration will be given to any enterprise from the start-up stage onward including turn-around and buy-out situations. Consortium is also prepared to participate in syndicates. The company prefers not to invest in the fields of building materials, construction and development and natural resources. Preference is shown for manufacturing, electronics (high technology industries) and food and beverage. No provincial restrictions are placed on any investment. Consortium prefers, initially, to take a controlling interest which may be earned back by the founders of the company. Divestiture usually occurs within five years. Control of the board of directors is preferred.

**Venture Analysis**
A company is expected to have developed the marketing plan, complete technical research and production planning. Consortium is capable of supplying ongoing management in most areas. A close relationship is maintained by means of monthly financial statements, membership on executive committees and through seats on the board of directors.

6.3.38 Federal Business Development Bank — Direct Inquiry to: The manager of any one of the 80 branches throughout Canada
Head Office
P.O. Box 6021
901 Victoria Square
Montreal, Quebec
H3C 3C3
Tel: (514) 283-5904 — Profile 38

**General Information**
The Federal Business Development Bank (FBDB) is a Federal Crown Corporation which succeeded the Industrial Development Bank. It provides financial and management assistance to businesses in Canada, particularly those of smaller size.

**Operational Approach**
FBDB can extend financing when it is not available to a business from other sources on reasonable terms and conditions. Most FBDB financings are for amounts of less than $100,000. FBDB does make larger commitments but the larger the amount required, the greater may be the possibility that financing is available elsewhere with reasonable terms and conditions. The principal vehicle for the employment of FBDB's funds is loans secured by a charge on the assets of the borrowing business. In those equity situations in which FBDB has participated, the full spectrum of investment instruments has been employed. FBDB will invest anywhere in Canada.

**Venture Analysis**
FBDB expects an applicant to be capable of developing all the necessary facets of the normal management process. However, it accepts the fact that significant deficiencies may exist at the time the entrepreneur submits his proposal. Investments are monitored through close contact with the management to the extent required in each case, review of regular financial information and, in certain cases, membership on the company's board.

6.3.39 Francana Development Corporation Ltd. — Direct Inquiry to: M. M. Lessard, M. B. Harding, M. A. Plourde
612 St. James Street
Montreal, Quebec
H3C 1E1
Tel: (514) 282-1753 — Profile 39

**General Information**
Francana Development Corporation Ltd. is a limited company. All of its shares are owned by Credit Foncier. The company has been engaged in venture capital financing since 1968. Total assets per the most recent financial statement were $27,425,000. There are investments in eight companies.

**Operational Approach**
At present, the greatest dollar value of funds is invested by way of common stock. The company is willing to invest in expansions, turn-arounds, and buy-outs. It has participated in syndicates. There is a reluctance to invest in construction and development and general high technology. Francana is willing to invest anywhere in Canada. Francana Development Corporation Ltd. does not ordinarily take a controlling interest. The company usually requires representation on the board of directors. Control of the board of directors is not required.

**Venture Analysis**
It is expected that an applicant will have developed financial planning and a complete management team at the earliest stage of investment. Investments are monitored through board representation and complete operations data as well as monthly financial reporting.

6.3.40 Genstar Limited — Direct inquiry to: G.W. Rutledge
1 Place Ville Marie
Suite 4105
Montreal, Quebec
H3B 3R1
Tel: (514) 879-1270 — Profile 40

**General Information**
Genstar Limited is a publicly held corporation listed on the New York, Montreal, Toronto and Vancouver stock exchanges. The company is engaged in a variety of operations either directly or through subsidiaries including venture capital financing in the western United States. The venture capital subsidiary of Genstar has more than 30 investments in its portfolio.

**Operational Approach**
Emphasis has been placed on new high technology industries. The following investments in California-based companies exemplify this approach: Lexitron Corporation, a producer of advanced typing and text revision systems; International Plasma Corporation, a manufacturer of low temperature plasma equipment for industry; and Advanced Memory Systems Inc., a manufacturer of semi-conductor memory products and systems. Genstar expects that investments will be held for at least five years.

**Venture Analysis**
The company expects that the management team of the applicant will be both experienced and creative. There must be a large and growing market for the applicant's product and the product must show some unique features which will enable it to capture a share of this growing market.

6.3.41 Gerbro Corporation — Direct Inquiry to: R. A. Bethell
1245 Sherbrooke Street West
Suite 1700
Montreal, Quebec
H3G 1H4
Tel: (514) 849-3721 — Profile 41

**General Information**
Gerbro Corporation is a privately held venture capital concern which has, for the past 15 years, concentrated on investment in the common stock of companies in the start-up and development stages of corporate life.

**Operational Approach**
Gerbro Corporation prefers investments in the $500,000 to $1 million range, although it is prepared to look at unusually interesting smaller or larger situations. The company does not show any strong preferences as to which industries it invests in, although it is reluctant to consider opportunities in chemicals, food and beverages. The company is prepared to take positions ranging from outright ownership down to a strong minority holding; and Gerbro's portfolio, at present, reflects this philosophy. Main interests currently lie in development capital investment rather than pure venture capital situations.

**Venture Analysis**
Gerbro Corporation expects that any company in which it invests will have developed a complement of management skills including financial, marketing and production planning. In addition, the entrepreneur should be able to demonstrate that any technical research required by the project has been completed. While the company is prepared to deal with either principals or middlemen, it insists on an initial written presentation together with financial statement.

6.3.42 Kauser Lowenstein & Meade Ltd. — Direct Inquirty to: S.J. Kauser, E.E. Baker
Innocan Investments Ltd.
Suite 1420
1801 McGill College Avenue
Montreal, Quebec
H3A 2N4
Tel: (514) 849-1651 — Profile 42

**General Information**
The company is a limited company having five shareholders and four people working full-time in the venture capital operation. The organization has been engaged in venture capital financing for seven years. It is closely associated with the Canada Development Corporation and Altamira Management Ltd. Total consolidated assets of Innocan as per the most recent financial statement are $23.3 million.

**Operational Approach**
The company prefers to make investments in the $500,000 to $1 million range, although it has made minimum investments of $50,000. It has initiated and participated in syndicates. The greatest dollar value of funds is invested by way of common stock. Investments will be made at all stages of growth. There are investments in ten different companies at this time. There is a reluctance to invest in natural resources or real estate. A strong preference is shown for chemicals, medical products and services and transportation. The company will invest anywhere in Canada. Divestiture usually takes place within five to seven years. The company ordinarily takes a controlling interest. Representation on the board of directors is required.

**Venture Analysis**
Companies are required to make operational and financial reports. Consultation on major operating decisions is required. It is expected that an applicant company will have developed complete technical research as well as financial and marketing planning. Kauser Lowenstein & Meade Ltd. is capable of providing ongoing management.

6.3.43 New Venture Equities Ltd. and Beutel, Goodman & Company Ltd. — Direct Inquiry to: A.C. Beutel
6th floor
4141 Sherbrooke Street West
Montreal, Quebec
H3Z 1B8 — Profile 43

**General Information**
New Venture Equities Ltd. is a privately held company sponsored and managed by Beutel, Goodman & Company Ltd., investment counsellors. At present, total venture capital assets managed by Beutel, Goodman & Company Ltd. for its own and clients' accounts (including $2.6 million in New Venture Equities itself) exceed $8.0 million. New Venture Equities has investments in 15 different companies.

**Operational Approach**
The management committee of three has an interesting range of backgrounds; finance, geology and chemistry, which explains the strong preference of these two companies for opportunities in the areas of financial services and natural resources. The companies would not be interested in ventures in the fields of construction and real estate development and wholesaling. The investment instrument has generally been equity, or equity related securities. Commitments range from $50,000 to $1.5 million. Preference is given to investments in the $100,000 to $250,000 range. Past investments have been in areas ranging from start-ups to buy-outs. The companies prefer to invest in situations originating in

Ontario, Quebec and Alberta. Although control is not usually taken, representation on the board of directors is usually required. In general, the companies are looking for the possibility of divestiture in three to five years.

**Venture Analysis**
An applicant must be able to demonstrate the reasonableness of his market planning and the ability to effectively plan the production process. Technical research must be completed and a prototype (if applicable) developed before the entrepreneur's ideas will be considered. As managerial assistance can only be provided on a part-time basis through participation on the board of directors and on the executive committee, applicants should have a reasonably complete management team.

6.3.44 RoyNat Ltd. (Head Office)
620 Dorchester Boulevard West
Montreal, Quebec
H3B 1P2
Tel: (514) 866-6861

Direct Inquiry to:
Any of 23
district offices, or
R.J. Durley
V.P. Investments
Montreal

Profile 44

**General Information**
RoyNat Ltd. was founded in 1962 to provide term debt financing, equity financing and equipment leasing services to Canadian business. The company's shareholders are: The Royal Bank of Canada, Bank Canadian National, Montreal Trust Co., The Canada Trust Co., and General Trust of Canada, but it is managed entirely independently of its five owners. Venture capital financing can be in the form of the purchase of convertible securities or common shares and, historically, many of these are accompanied be a secured term loan. Options may also be included in the program. The company has invested, by way of common and convertible shares, in more than 45 companies, and by way of term loan and option agreement, in more than 130 companies since it was founded.

**Operational Approach**
RoyNat's equity investments do not involve taking controlling interest, nor do they necessarily require representation on the board of directors. RoyNat Ltd. will consider almost all types of businesses for investment, with the exception of real estate development companies. The company has no geographical restrictions on potential investments in Canada. RoyNat will consider venture capital investments on its own or in association with other investors. The size of term financing investments range from $25,000 to $5 million, but common shares or convertible portion of the investments have usually been in the area of $150,000 with a maximum of $400,000. RoyNat Ltd. will invest in all stages of a company's growth with the exception of the initial development of a promising idea to the prototype stage. RoyNat will ordinarily invest in a private company for five to a maximum of ten years.

**Venture Analysis**
RoyNat equity financing usually monitors its investments by occasional meetings and plant visits by local representatives (23 offices across Canada) and head office personnel. In addition to the financing instruments mentioned above, the company frequently provides financial advice related to marketing and production decisions.

6.3.45 Smith's Investment Corp. Ltd.
Suite 1
1458 Crescent Street
Montreal, Quebec
H3G 2B6
Tel: (514) 844-3319

Direct Inquiry to:
E. Smith
M. Smith

Profile 45

**General Information**
Smith's Investment Corp. Ltd. is a limited company. There are five shareholders and two people working part-time in the venture capital operation. The company has been engaged in venture capital financing for ten years.

**Operational Approach**
The company prefers to make investments in the $100,000 range, but has made minimum investments of $10,000. Smith's Investment has participated in syndicates. The greatest dollar value of funds is invested by way of convertible preferred shares. Smith's Investment will invest in expansions, turn-arounds and buy-outs. There is a reluctance to invest in chemicals, educational products and services, and general high technology. There is a strong preference for investment in construction and development, financial services and manufacturing. A controlling interest is normally taken. Representation on the board of directors is not normally taken.

**Venture Analysis**
It is expected that the applicant company will have developed a complete management team and marketing planning at the earliest stage of investment. Smith's Investment Corp. Ltd. is capable of supplying ongoing management to companies in which it has invested.

6.3.46 Sutton Ventures Ltd.
1018 Sun Life Building
Dominion Square
Montreal, Quebec
H3B 2W8
Tel: (514) 866-2724

Direct Inquiry to:
I. A. Soutar
A. S. Taylor

Profile 46

**General Information**
Sutton Ventures Ltd. is a company which became active in venture capital in 1969. All of its shares are held by GBC Capital Ltd. Sutton prefers to participate in ventures with other venture capital groups. The firm has a capital base of $3.1 million and is managed by Pembroke Management Ltd. Sutton has invested in companies in the fields of medical service, time-sharing and trucking.

**Operational Approach**
Its minimum investment has been $250,000 with its maximum being $500,000. The company wishes to remain within this range on any future investments. Sutton never seeks a controlling interest. Representation on the board of directors is not sought. The company prefers capital intensive service-oriented and high technology companies. There is reluctance to invest in the building material, chemical, construction and development, forest product and mining industries. It does not normally participate in a buy-out or turn-around situation. Several of its ventures have been outside the province of Quebec and, although close contact is maintained by monthly financials and frequent visits, location does not create a problem. All of its investments have been in the form of equity. Sutton has supplied capital to develop just a promising idea but the extent to which it can supply ongoing management is restricted.

**Venture Analysis**
Participation by middlemen, brokers, etc., is welcomed. Due to the nature of its investments, the company places no definite restrictions or obligations on the portfolio companies. Sutton may initially be attracted by growth potential. The enterprise is expected to have developed financial and marketing planning at the earliest stage of investment. A rate of return on investment expected is 100 per cent per annum with Sutton participating in any investment for an average of five years.

# Section 7

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